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American Banker

The Daily Financial Services Newspaper

Reprint of 1985 Survey Published in October and November

HOW CONSUMER AMERICA VIEWS THE CHANGING FINANCIAL SYSTEM

Consumers report they maintain accounts at fewer institutions than a year ago. **8**

Failures of state-insured thrifts have tarnished financial institutions nationwide. **11**

Firm opinions and some savvy appear in consumers' views of financial services. **1**

Insurance funds for deposits appear insufficient to more than a third of the country. **5**

Satisfaction among bank customers showed the most improvement this year. **8**

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Interstate banking is welcomed by a majority of consumers. **6**

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Automated teller machines have penetrated half the consumer market. **14**

Banker ethics fail to live up to public expectations. **4**

One-in-ten Americans already cross state lines for bank services. **7**

Banks outpace thrifts in confidence among consumers who see a difference. **10**

Electronic services have reached nearly two-thirds of the nation. **15**

Survey Suggests Consumer Savvy

Overview

By DAVID LaGESSE

"Times change. But I don't think banks need to change so quickly."

— One consumer's assessment of the evolving financial industry.

The growing sophistication of American consumers and the challenge their rising savvy presents to the financial services industry weave a common theme in responses to a nationwide survey commissioned by the *American Banker.*

Anticipating rapid changes from deregulation, bankers have sought new powers, markets, and technology that they hope will carry their industry into the future. A review of the survey findings, published in a series of articles over the last several weeks, suggests that the public has firm opinions on many of those issues.

The data also implies that bankers face a tough task in trying to modernize the way consumers conduct their personal finances, supporting the notion that consumers are basically happy with the status quo and must be convinced of the value of any change.

The *American Banker* sought to quantify those feelings in this, its second survey on consumer attitudes toward the changing financial services industry. About 1,000 adults were interviewed by telephone in late July by Reichman Research Inc., an opinion-research firm with offices in New York City and San Francisco. Reichman posed some of the same questions that were asked of consumers in the survey conducted in 1984.

The survey results illustrate that even consumers who like modern technology, which has prompted the most dramatic changes for bank customers thus far, express varying levels of enthusiasm for continued changes. That further dampens the predictions of a few years ago, for example, that the nation quickly would move to a paperless financial system.

Now bankers speak of "the Wall," a nickname for the apparent limit to the appeal of all-electronic banking, which only finds favor among a minority of consumers. Long-distance runners use the same term to describe the exhaustion that hits them in a marathon — invisible and often unexpected, but also undeniable.

Banks found that some consumers simply resist using electronics for par-

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For the second year in a row, the *American Banker* has commissioned a nationwide survey to learn how American consumers are responding to the great changes in the financial system.

The telephone survey of 1,000 households was conducted by Reichman Research Inc., a New York-based opinion research firm.

American Banker staff writer David LaGesse was responsible for reporting and writing the entire series. Art for the series was prepared by Bill Silbert and *American Banker* Art Director Eileen Berasi.

How Consumer America Views the Changing Financial System

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ticular banking transactions, while some resist the new technology for any transaction. Banking at home through personal computers, for example, appears dead in its present form — it has yet to effectively meet widespread needs.

Consumers also won't be forced into anything — a realization that swept the industry after the public backlash to pilot programs that limited human tellers to wealthier customers. Progress toward automation continues, but banks move more carefully — a fact illustrated by recent campaigns to advertise the availability of personal service.

The survey results also suggest that consumers don't harbor a knee-jerk skepticism about bankers or have an inevitable resistance to change. A majority in the survey group, for example, supports the efforts of banks to branch across state lines.

They also distinguish the advantages of interstate banking, citing better and more services as the likely outcome of interstate banking. They don't expect a better price on deposits, and they recognize but don't overly fear the threat of interstate banking to smaller institutions.

Consumers also differentiate interstate banking from other political issues, showing a clear bias against letting banks into new businesses. But the consumer responses reveal less opposition to other industries getting into financial services.

That distinction may reflect the traditional role of banks and thrifts in protecting the public's savings. The average consumer clearly values the federal guarantees that protect their deposits at banks and thrifts; awareness of thrift collapses in Ohio and Maryland only slightly deflates the public's overall confidence in the country's financial system.

Consumers also know enough to distinguish the backing of the federal government from the specific insurance reserves that provide the first line of defense for deposits — the funds seem sufficient to only half of the survey group, yet confidence in the system as a whole remains high.

But problems do threaten to erode that faith. Consumers harbor concerns that banker ethics don't live up to the public's expectations, and also feel the government could be tougher in keeping the institutions in line with regulations.

Other studies also suggest that the industry could lose its public franchise because of the confusion wrought by financial deregulation — particularly with the plethora of new products and terms that have come out of the industry.

Without contradicting those conclusions, the *American Banker* study suggests that consumers at least know what they want — and that the public can, and will, determine the future design of the financial industry. ■

How the Survey Was Conducted

The results of the *American Banker*'s second annual survey on "How Consumer America Views the Changing Financial System" are based on telephone interviews conducted among a scientifically selected random cross section of the American public. The cross section consisted of 1,004 respondents.

Reichman Research, a marketing/opinion research firm, in collaboration with the *American Banker*'s senior editors and reporter David LaGesse, developed the questionnaire for this survey. In addition, Reichman Research was solely responsible for the interviewing, as well as for the preliminary analysis of the survey data.

The sample was a stratified random digit-dial sample, which was so drawn that all telephone-owning households in the continental United States, listed and unlisted, had a theoretically known chance of being selected.

Heads of households, co-heads, and spouses of heads of households, 18 years of age and older, were eligible to be interviewed.

All interviewing was conducted between July 20 and 31, 1985. The typical interview lasted 19.8 minutes.

In this sample, prior to analysis, appropriate weighting was applied to correct any minor deviations in the sample from known population characteristics.

In reviewing the survey results, the reader should be aware that the expected sampling error for a sample consisting of 1,000 interviews is a plus or minus three percentage points. This "margin of error" applies to the total sample. Subgroups that consist of smaller sample sizes have greater margins of error.

The same research firm conducted the *American Banker*'s first consumer attitude survey in 1984 and another in 1983 on "How Corporate America Views the Changing Financial Services Industry."

Mood Upbeat Despite Awareness of Troubles

Unshaken by rising bank failures and even the statewide thrift closings, American consumers quietly maintained their confidence in the nation's financial system during the past year, according to a nationwide study commissioned by the American Banker.

Consumer trust, in fact, appears slightly buoyed since the American Banker first sought to measure the public's faith in the U.S. financial system through a similar survey last year. That's despite ample awareness that more banks are in trouble as well as widespread concern that insurance funds may fail to protect deposits — two other findings in the survey conducted in late July.

Bankers and regulators welcome the news of some stability in consumer confidence. But several observers voice disappointment that a sizable group of Americans, roughly a third, say their trust in financial institutions remains lower than a few years ago.

Any reprieve from rising consumer doubts, however — even if it were a gift that came with economic trends beyond the banks' control — seems like a cool splash for many bankers facing the heat of an industry in turmoil.

A gift it may be, as consumer confidence in deposit institutions must reflect the economic stability that Americans enjoyed over the past year, said Richard Curtin, who directs consumer attitude surveys for the University of Michigan's Institute for Social Research in Ann Arbor. "The fact the economy has been up for a couple of years has to have helped the banks and thrifts," he said.

Yet his university's survey of confidence in the economy is down slightly from the past year, probably because consumers see domestic growth as slowing, Mr. Curtin said. Thus, banks and thrifts apparently made some progress on their own — perhaps a sign that the public sees the industry successfully riding the waves of change, he said.

Bankers and regulators largely echo that interpretation when considering the small rise over last year in positive responses to the American Banker's questions on confidence in the financial system. Key measures of public trust that were repeated in this year's survey rose an average of 5%, with the biggest shift coming in the group of consumers who express the utmost confidence in financial institutions.

Those responses came to three questions in the telephone survey conducted by Reichman Research Inc., a New York-based opinion research firm. Surveyors interviewed some 1,000 individuals nationwide.

The survey asked consumers to assess the health of the nation's financial system, to describe their own confidence in the security of American banking, and whether they think their confidence has strengthened or weakened over recent years.

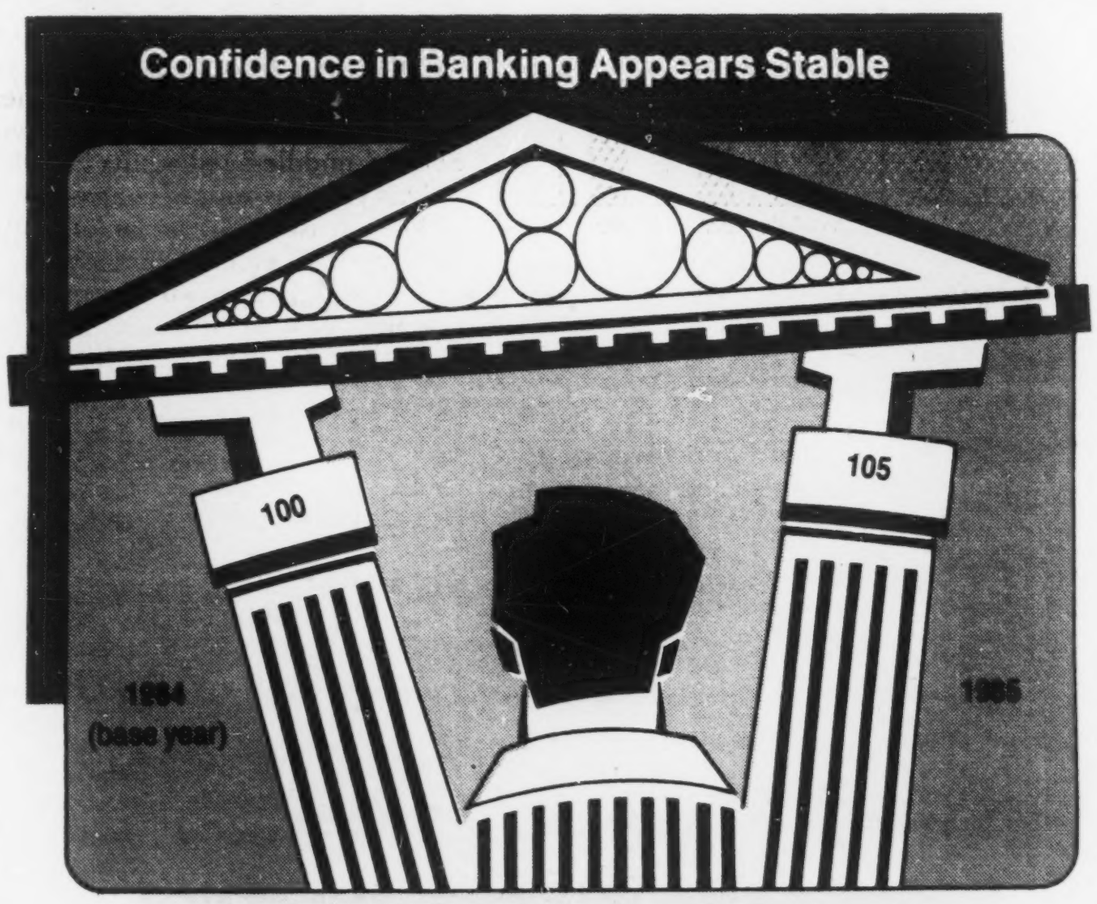
Some correlation again appears this year between the level of public trust in banking and the level of satisfaction with banking services, another area probed in the consumer survey. Compared to consumers who say they've grown more satisfied with their principal bank over the past few years, people who say they are less satisfied with their principal bank today are twice as likely to say they are also less confident now than a few years ago about the industry's health.

"But when you stop and look at it, I think it's largely that nothing has really happened to the man on the street to shake his confidence in the financial system," said J. Charles Partee, a member of the Federal Reserve Board of Governors. "There are very few places, for example, where depositors have actually lost money during the past year, either temporarily or for good."

And most of those depositors were victims of the state-sponsored but privately controlled insurance funds that collapsed last spring in Ohio and Maryland. Those crises prompted depositors around the country to examine their money's protection; most bank and thrift executives reported a jump in inquiries about their deposit insurance.

Americans apparently appreciated the distinction between the state funds and federal deposit insurance, which they have been told carries the full backing of the federal government. "Federally insured institutions were able to distance themselves psychologically from the problems in Ohio and Maryland, even perhaps benefiting from those problems," said the University of Michigan's Mr. Curtin.

Indeed, as described by a middle-



An upward nudge this year to American Banker's index of consumer confidence in the nation's financial system:

Consumer Confidence

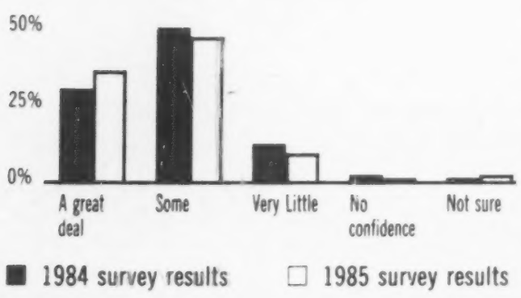
How Consumer America Views the Changing Financial System

aged woman in the South, "With the federal insurance behind the banks and savings and loans, they are as strong as our government."

Not that the thrift crises didn't shake the pillars of confidence in some areas, particularly the closing of some 71 thrifts in Ohio that began with the early March failure of Home State Savings Bank in Cincinnati. Residents of the North Central states, which include Ohio, clearly diluted the greater confidence in banking that was expressed in other regions.

Depth of consumer confidence also improves

Q: How much confidence do you personally have in the security of the nation's financial system today?



The Northeast appeared the most enthusiastic in renewing its trust in financial institutions. Observers note that the region suffered no widely publicized bank failures during the year, and even the lingering throes of savings banks in New York City eased somewhat with the year's lower interest rates.

Bad news about foreign loans also became less frequent for New York's money center banks, though the issue is not forgotten by consumers. Responding to an open-ended request to name the two or three key threats to banking safety, the public most frequently named overseas lending — pegged by nearly one in five respondents.

Loans with insufficient security also loom in the minds of consumers, as do high interest rates — both were named in about one-tenth of the responses. One woman in the Northeast explained herself in a good news/bad news fashion: She said banks are "charging such large interest rates that they must be making enough money to stay healthy."

The West and South revealed slight increases in confidence, roughly between the flat response of the North Central region and the buoyant response from the Northeast. The West was perhaps stymied by the huge losses announced by Bank of America and the Financial Corporation of America.

California newspapers also gave much publicity to the collapse of that state's thrift and loan insurance fund, a crisis that largely unfolded since last year's survey, said John Lane, a review examiner and specialist in consumer affairs for the Federal Deposit Insurance Corp. in San Francisco. Bank of America drew more bad publicity for its involvement in a securities scandal that rocked the secondary mortgage markets.

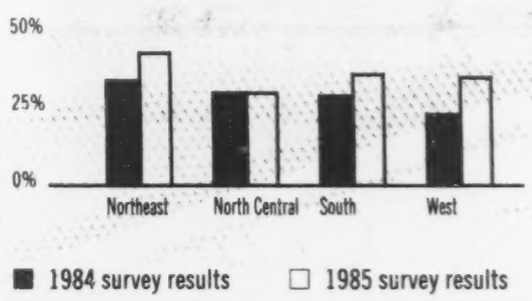
"We've also had a number of developers that were highfliers for a couple of years. Their problems are reflected in increasing bank and thrift failures in Southern California," he added.

The South, as well, has run into its share of highfliers, most notably E.S.M. Government Securities Inc., a securities trading firm based in Florida that collapsed last spring and led to Ohio's thrift crisis. Florida also has suffered because of the real estate losses of several of its thrifts.

Consumers apparently have heard the industry predictions that real estate losses will continue to spread among thrifts, as well as official projections that bank failures will continue to rise.

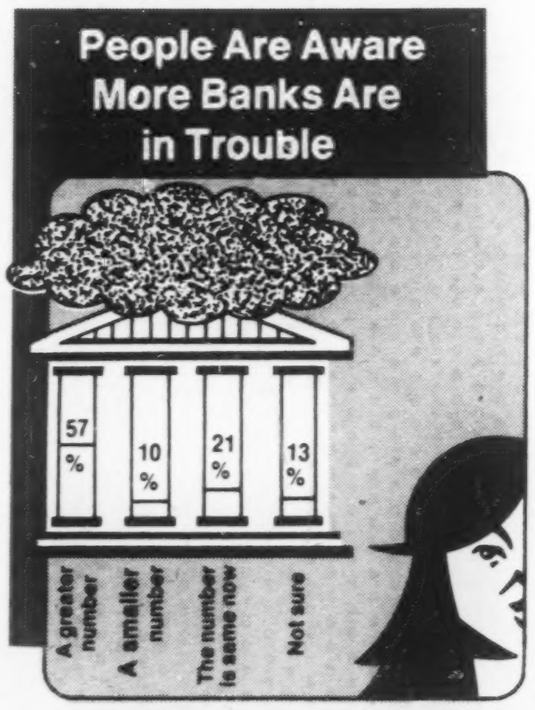
North Central states lag in voicing utmost confidence

Percent responding with "a great deal" when asked how much confidence they hold in nation's financial system.



"I'm glad people are aware. I'd rather tell people what we're expecting than have them surprised when the failures come," said William M. Isaac, outgoing FDIC chairman.

In January, Mr. Isaac predicted some 100 banks would fail before year's end, a prediction already realized with the 100th failure of the year last month.



Are more financial institutions facing serious problems in the 1980s than in previous decades?

But the FDIC chairman said that he for one isn't surprised that the highest bank failure rate since the Great Depression didn't appreciably erode public confidence last year.

"Consumers are seeing that we can handle more bank failures in an orderly fashion that preserves their deposits," Mr. Isaac said.

Indeed, the group that probably shudders first at the sign of bank failures gave the industry an encouraging sign: The elderly's expression of confidence in banking institutions jumped more in the past year than did other age groups. Consumers aged 55 years and older pulled themselves nearly even with the faith expressed by younger and middle-aged adults in 1985.

This year's response contrasts with a weaker trust in financial institutions held by the elderly in 1984, which clearly dragged down the overall assessment of banking health last year.

That could just be a reflection that older adults are getting acclimated to the turmoil in the banking industry, says Robert Gnaizda, an attorney in California who has represented many elderly clients in that state's thrift and loan crisis.

Those victims have largely lost faith in the financial system, he says. "Even though they may not be that many, you have to give more weight to the people who have suffered from bank and thrift closings" — their bitterness can spread and poison public opinion at large, says Mr. Gnaizda.

The elderly also voiced increased satisfaction with their main financial institutions, a pattern that officials at the American Bankers Association say they increasingly think is typical. "We find that a customer's satisfaction with his own bank or thrift can have a lot to do with how he feels about the financial system as a whole," said James G. Cairns Jr., last year's ABA president and chairman of Peoples National Bank of Washington in Seattle.

There seems to be at least one other tie between satisfaction and confidence in the 1985 study results. Wealthy households, those with annual incomes of more than $55,000, also helped lead the boost to overall faith in the financial system. As with the elderly, the biggest change among affluent consumers was a larger number that expressed the utmost confidence in financial institutions.

The study also revealed similar, more positive endorsements by the elderly and wealthy of the services at their principal institution. The implication could be that banks have improved service sufficiently for those groups to have earned a stronger endorsement of banking security, Mr. Cairns said.

Trust improved the most among the elderly

Percent responding positively when asked if they think the nation's financial system is currently healthy.

	1984	1985	Change
18-34 years old	69%	74%	+5 points
35-54 years old	68	76	+9 points
55 years & older	59	72	+13 points

Other researchers warn of the difficulty, however, in correlating personal satisfaction with consumer confidence in banking, because groups of generally negative people can skew the findings.

One way or the other, winning the utmost confidence of consumers often doesn't come easily. As a commercial bank customer from the South said: "I think if even one bank is in trouble, that is just reason to call the banking system fairly healthy instead of very healthy." ■

What Consumers Say About Nation's Financial System

"The main problem is the large number of outstanding loans to foreign countries that can't pay them back. The federal government also is unsure how much power it wants to give to banks and how much freedom they need to succeed in the financial industry. The public has caught on to these two faults and is beginning to worry about how safe its money is...

— Young man from a middle-income household in North Central region

I think loans are easier to get and the system is slowly getting better. There are very few banks closing and interest rates are down. Things just seem to be looking better...

— Young woman from a middle-income household in the South

I feel that the government won't ever let things get too unhealthy..."

— Middle-aged woman from an upper-income household in the South

How Consumer America Views the Changing Financial System

To the Disappointment of Industry Leaders, View of Bankers' Integrity Falls Short

Bankers apparently have disappointed American consumers in not living up to the ethical standards that the public expects of its money managers, a research finding that has surprised and disappointed a number of industry leaders and regulators.

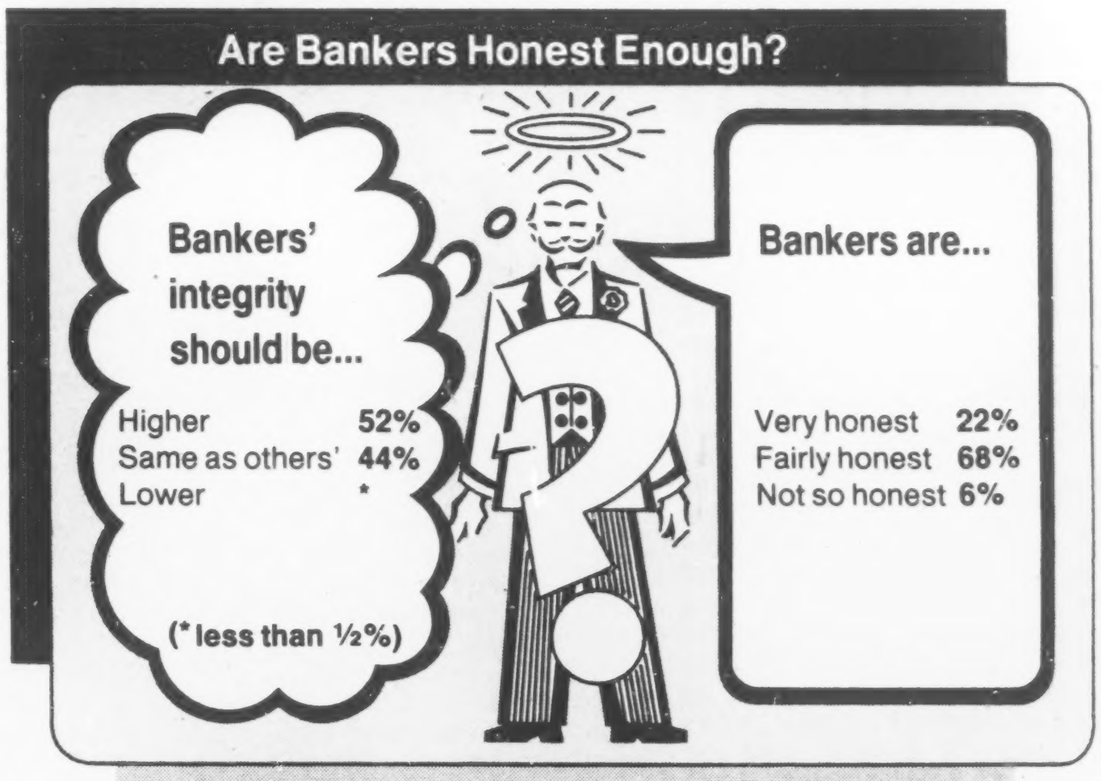
A little more than half of the consumers surveyed expect bankers to maintain higher standards of integrity than other business executives, but less than a quarter of the population thinks that bankers have proved themselves "very honest," according to the results of a nationwide study commissioned by the *American Banker*.

"I'm very surprised that consumers don't consider their bankers more honest than that," said James G. Cairns Jr., who is the outgoing president of the American Bankers Association and the president of the Peoples National Bank of Washington in Seattle.

"I think that figure used to be higher — we need to get it back to a higher level," he added.

Consumers don't seem to see fraud as rampant in the banking industry — nine out of ten see bankers as at least fairly honest. "But, in view of the finding that Americans think bankers should have higher standards of honesty and integrity than other business people, one wonders whether being 'fairly' honest is enough," said David Reichman, president of Reichman Research Inc., the opinion research firm that conducted the survey.

On a positive note from the same survey, consumers concluded, by a margin of nearly four to one, that the vast majority of banks and thrifts are well managed. But a strong public consensus also agreed that poor management stands as the most likely cause of serious problems at a financial institution.



Half the country feels banking requires extraordinary integrity, yet only one in four consumers thinks bankers are "very honest."

That apparent consensus runs counter to the experience of regulators, however. Historic experience shows that about half of bank failures have involved fraud — such as loans to insiders — or simple theft, said William M. Isaac, outgoing chairman of the Federal Deposit Insurance Corp.

But when asked, only one in ten consumers said dishonesty would likely be the main cause of trouble for a financial institution. This seems to suggest that, despite their voicing surprising mistrust of their bankers, the public may not fully understand the cost of fraud in banking and finance.

The public's criticism of bankers' honesty also may be unfairly inflated this year, said Donald F. Reid, compliance officer at Wells Fargo Bank, San Francisco.

"I'm disappointed at their reaction, but not really surprised," he said, noting that some banking crimes this year have received more national attention than similar crimes in the past.

The vigorous prosecution led to more bad press about banking ethics than has been seen for a while, if ever, Mr. Isaac said. He pointed to the stepped-up efforts of the federal government to force banks to comply with reporting requirements on cash transfers larger than $10,000.

The government has publicly accused a number of banks in recent months of failing to report large cash transfers, leading to allegations that some of bankers laundered money for organized crime. A case involving the First National Bank of Boston, probably most notable of the investigations that were revealed recently, cost the bank a guilty plea and a $500,000 fine.

Bankers also speculate on the possible effect of the scandal involving E.F. Hutton in which the securities firm pleaded guilty to federal charges that it defrauded banks of money. The brokerage admitted it conspired to bilk banks out of millions of dollars by manipulating the float that naturally occurs in corporate accounts.

Hutton, months after pleading guilty, continues to suffer from lingering publicity on the affair. While banks actually were Hutton's victims, the high visibility of white-collar crime in financial services probably added to the banks' own image problems, said Mr. Reid.

But it is not currency reporting violations and illegal check floating that cause financial institutions to fail. The fraud that brings down most depository institutions is often less spectacular,

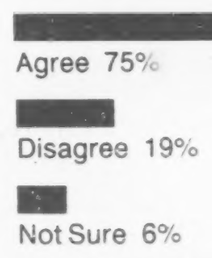
Banker Honesty

and usually earns only local press coverage. There are exceptions, of course, including the alleged fraud that last spring helped bring down Home State Savings Bank in Cincinnati.

Consumers nationwide generally hear much more about the fraud that earned institutions some profits, rather than about the crimes that brought down even nearby banks and thrifts.

"It's just becoming more and more clear that the banking industry itself must focus on some internal policing," said Clifford W. Stone, chairman of the Walnut Valley State Bank, an institution with $81 million assets in El Dorado, Kan., 30 miles from Wichita.

Q: Are the vast majority of banks and thrifts well managed?



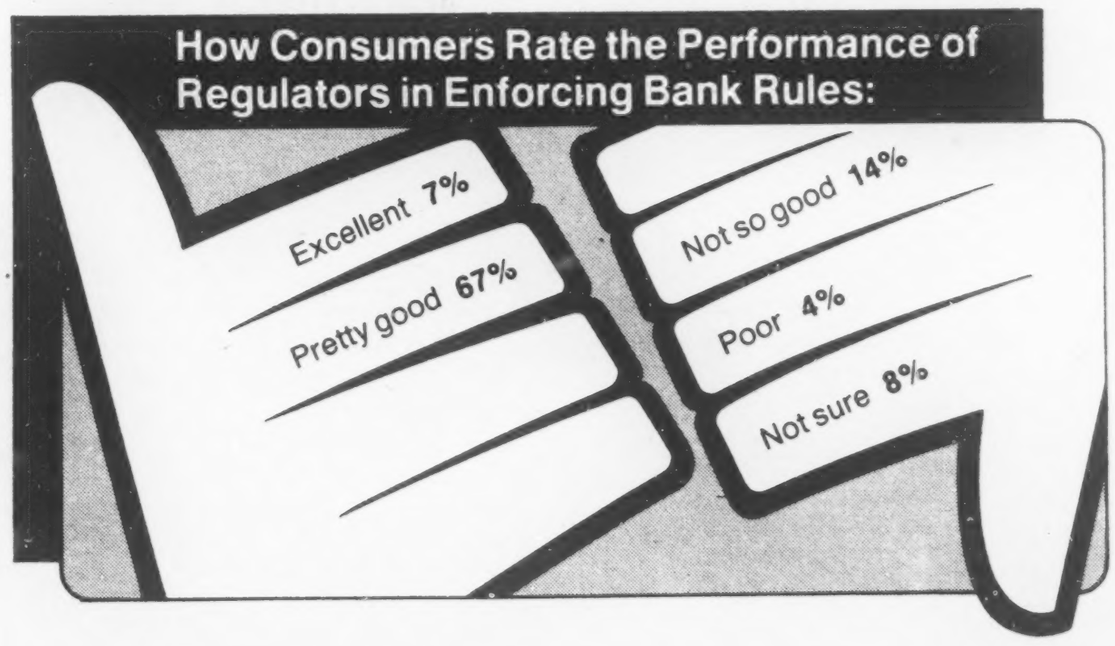
"I'm afraid there is no increasing sensitivity to ethical questions in banking, though there should be," he said.

Some of the blame, Mr. Stone said, he places on the regulators for throwing banks into open competition with other industries for the consumer's financial business. Banks remain tightly controlled by government regulators, while their new competitors compete "completely unfettered," he added.

"The focus for so many bankers now is on staying alive, not necessarily on doing what is right."

Mr. Stone belongs to an industry task force, headed by Mr. Reid of Wells Fargo, that is revising a guidebook for banks that want to write their own ethical policies. Written ethical codes first began appearing in banks around 1970, and they get periodic attention from banks after major fraud investigations into banks are revealed, Mr. Stone explained.

"Actually, I'm just not that big on ethics manuals," he said. "You can write ethics manuals till your thumbs fall off, but it's the spirit of the issue that we've got to work on."


How Consumers Rate the Performance of Regulators in Enforcing Bank Rules:
Excellent 7%
Pretty good 67%
Not so good 14%
Poor 4%
Not sure 8%

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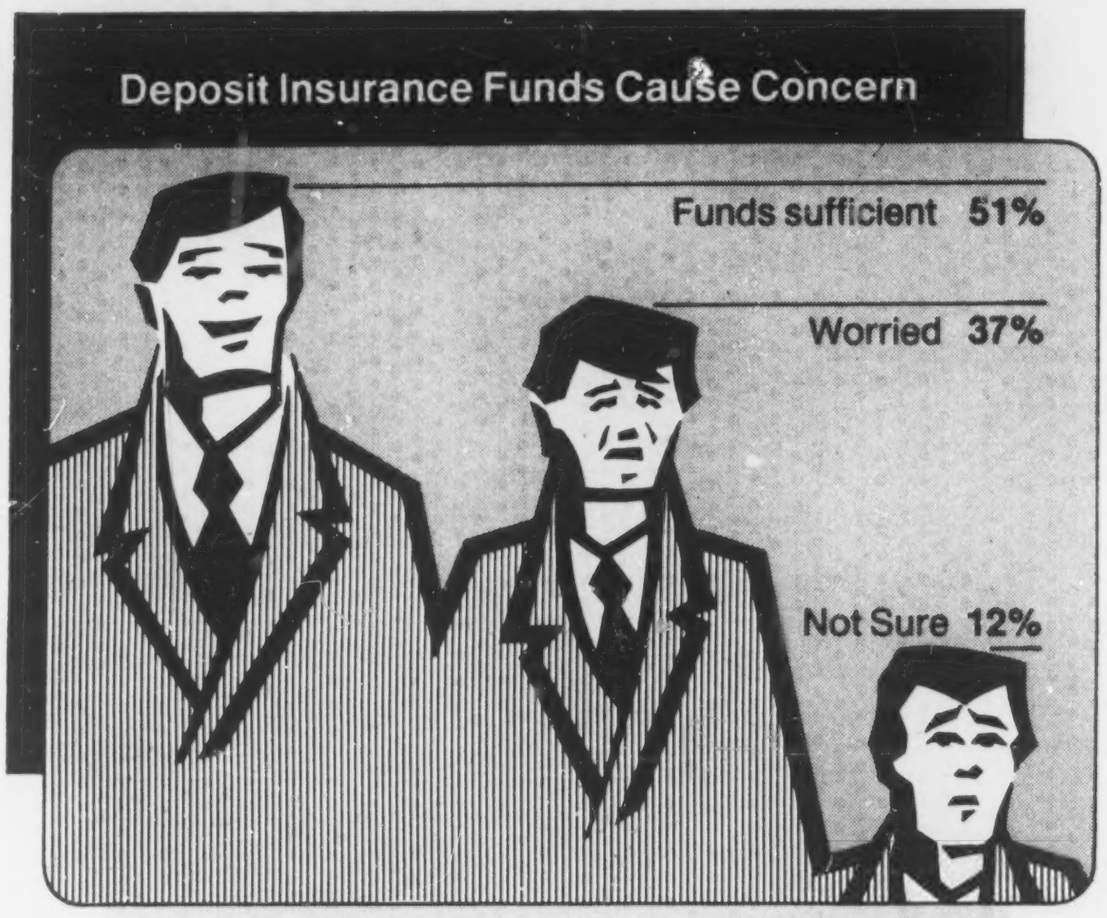
Business Offices listed on page 15

Public Worries About Adequacy of Federal Insurance Funds

More than a third of American consumers worry that the insurance funds protecting their deposits will prove inadequate, and nearly half the public would urge regulators to get tougher in their efforts to keep banks out of trouble, according to a study commissioned by the *American Banker*.

A large majority of consumers give regulators a good review for their work so far in keeping banks and thrifts in line, but they would like to see more frequent audits and critical appraisals of the investments that banks make with their savings.



Half the nation rests assured that insurance funds have enough money to protect deposits, while more than a third appears nervous.

Insurance Funds

Open-ended responses to one survey question indicate that consumers have little understanding of how regulators work with banks and thrifts. Those wanting regulators to take aggressive action were asked to suggest tactics, but most responses were similar to that of a young man from the West: "They should audit more carefully."

They already do, says John W. McIntyre, president of the Citizens and Southern National Bank, Atlanta. "We've seen a lot more enforcement actions against banks and thrifts, and the agencies are quicker to follow up with legal action, if necessary," he says.

A couple of the federal agencies that regulate thrifts and banks have also promised to hire additional examiners and beef up their reviews even more, he adds.

Regulators generally come under a little more criticism out West, according to the survey results. The share of westerners giving bank supervisors a positive review fell some seven percentage points off the national average, most of which came out of those who give regulators an "excellent" rating.

The West also worries more than the rest of the country about the adequacy of the insurance funds that protect deposits, with westerners evenly divided as to whether the reserves are large enough. That higher anxiety may reflect the open talk of needing more money for the Federal Savings and Loan Insurance Corp., whose members play such a pivotal role in the housing industry that is so important to the economy of the Southwest.

"The various proposals that have been considered to shore up FSLIC have received wide discussion out here," says Donald L. Alexander, vice president of the Federal Home Loan Bank of San Francisco.

He also notes that thrift failures have dramatically increased during the past year in the region covered by the San Francisco office — 11 thrift failures so far this year, compared with only a couple in the same period a year ago.

The collapse last year of the fund that insured smaller, state-chartered thrift and loans in California also must weigh on consumers' minds, says John Lane, a review examiner for the Federal Deposit Insurance Corp. in San Francisco.

Similar to what happened to state-sponsored funds in Ohio and Maryland, California's Legislature eventually stepped in and arranged a refund to the depositors of the failed institutions. But the legislative debate dragged on for nearly a year, and only half of the remaining thrift and loans in California have qualified for federal insurance, Mr. Lane says.

The Northeast, whose residents display the most optimism in assessing many aspects of the banking industry, also voiced the most confidence about the adequacy of deposit insurance. The lower plateau maintained by interest rates over the past year helped ease concerns over foreign loans as well as helping to improve earnings at New York's savings banks, probably giving the Northeast a boost in optimism over other regions, Mr. Lane says.

Discussions about FSLIC, as well the state-sponsored funds that collapsed in the three states, must have dominated the thinking of consumers concerned about the adequacy of deposit insurance, says outgoing FDIC Chairman William M. Isaac. He argues that consumer confidence in the FDIC should have grown as the reserves grew, which he says are up 70% compared with five years ago.

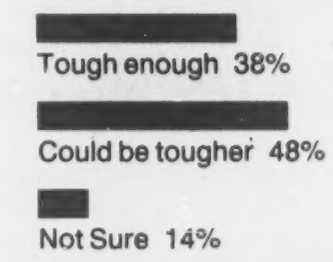
But consumers increasingly tend to lump all institutions together, particularly as deregulation helps blur the distinctions, says Mr. McIntyre of Citizens and Southern. "They've all become banks in the eyes of the consumer."

Luckily, the public nonetheless seems able to look past their concerns about reserves to the government backing of both the FSLIC and the FDIC, says Mr. Lane of the FDIC. "They just want to know if its federally insured -- even the most troubled of the federal thrifts have no trouble getting insured deposits," he says.

That seems reflected in the overall stability of consumer confidence in the nation's financial system, addressed in another section of the *American Banker* study. But concerns about deposit insurance clearly cut into consumer confidence.

According to the survey, consumers who worry about the reserves that protect their deposits are twice as likely to express little or no confidence in the nation's financial institutions.

Q: Could regulators be tougher in enforcing bank rules?



A young woman from the North Central region, for example, explains why she has lost some confidence in banks and thrifts: "They have defaulted on loans and have no money to back them up." ■

What Consumers Say About Regulators

"On a state level, they should be more strict and not bend the rules; a lot of times they just turn their heads...

— Young man from an upper middle-income household in the Northeast

They could keep a closer eye on the institutions by having an audit every six months...

— Middle-aged man from an upper middle-income household in the South

They should have bigger penalties for wrongdoings...

— Young man from an upper-income household in the South"

Most Consumers Welcome Out-of-State Banks

Four in 10 Say Outsiders Could Match Local Service; Threat Seen to Small Firms

Bring on the big banks, consumers seem to say, as long as bankers can apply the gospel of convenience to cash transactions like McDonald's did to hamburgers.

A majority of American consumers say they welcome an invasion of their home turf by the financial institutions that stand poised on their state borders. Eager for better service and more convenience, a sizable minority also say they would likely open an account at the local outpost of an out-of-state bank, according to a nationwide study commissioned by the *American Banker*.

Interstate Banking

But there's less agreement that the big banks will beat local banks' prices; about half the survey group says it doesn't think the competition from interstate banks will raise the rates on their deposits.

That aside, supporters of interstate banking laws greeted the survey findings as support for opening the interstate gates. "I think those results sound very hospitable to the concept, especially if that many people are ready to open accounts at the interstate branches," said John D. Hawke Jr., an attorney in Washington.

"It sounds as if there might be a much larger shift in business than people expected with interstate branches," he added.

Groups that oppose interstate banking, however, argue that measures of public support cannot be based on consumer reaction to the concept of allowing banks to cross state lines. "If you go out on the street and ask if they favor allowing a new facility to open in their area, you can bet everyone will say yes," says Kenneth A. Guenther, executive director of the Independent Bankers Association of America.

"If you add that the new facility may be the only institution around after about 10 years, you'll get a much different response," he added.

The stakes could be high in the debate, which threatens to heat up in state legislatures and on Capitol Hill after the U.S. Supreme Court earlier this year upheld the pacts that limit interstate branching to reciprocal state ageements.

Mr. Guenther's group has lobbied hard against interstate banking because its members — smaller community banks — fear that they face unfair competition from the industry giants. That fear appears all the more threatening alongside the government's unofficial policy of not allowing a score of the largest banks to fail because of the fallout that might blow across the financial industry, Mr. Guenther said.

Consumers, too, perceive a threat to the smaller banks in their community from interstate banking, according to the study that was prepared for the *American Banker* by Reichman Research Inc.

A two-thirds consensus agreed that allowing large, out-of-state banks to expand into their communities would mean that local banks will not be able to compete. The mere thought of bigger banks taking over evokes some long-standing fears: "Too much power in too few hands," says a young consumer from the Northeast.

When asked to explain their opposition to interstate banking, about one-in-seven respondents cite their distaste for big banks.

But the rest of the public expresses mixed feelings on the importance of protecting smaller institutions. Nearly half of those who predict the demise of the smaller banks, for example, still say they favor interstate banking.

That's even though a comparable number agree that an out-of-state bank can never serve customers as well as those locally owned and operated. Four in ten consumers disagree with that and say that national franchises can provide the same personal attention that the hometown bank provides.

It is the elderly, those at least 55 years old, who feel most strongly about smaller banks. About two-thirds of older customers agree that the local banks cannot be replaced by out-of-state institutions. In contrast, wealthier households seem less concerned about preserving the smaller institution; better than half think that big banks can provide the same service.

Keep in mind the trend of larger banks to limit personal services on smaller accounts. "That's something that started on the East Coast, but it's carried out now to the West Coast," says John Lane, a review examiner and consumer specialist for the Federal Deposit Insurance Corp. in San Francisco.

That pattern of responses from the elderly and upper-income customers remains consistent throughout a series of scenarios described in the survey. The elderly generally resist the concept of interstate banking, while upper-income respondents welcome it enthusiastically.

Conversely, young adults are slightly more enthusiastic about interstate banking than the norm, and lower-income respondents are a little less in favor of interstate banking than the general public.

Those older and wealthier consumers do show near agreement on two issues related to interstate banking. They agree that small banks might not survive the weight of interstate competition, and both are fairly skeptical that interstate banks would bring higher rates on deposits.

Consumers across the board, in fact, seem to agree that interstate competition probably won't much affect the rates on their deposits.

"Most savers have small accounts and usually think in terms of passbook accounts, for example. Those probably won't change much with competition," said Mr. Hawke.

Rates on larger deposits, for which banks and thrifts compete more fiercely, would surely rise with the removal of interstate barriers, said William M. Isaac, former chairman of the Federal Deposit Insurance Corp. and a supporter of interstate banking.

Consumers largely agree, however, that competition fostered by interstate banking would lead to more banking convenience. Accessibility outpaced all other advantages as the reason most often cited as behind their support for interstate banking, as described in answers to open-ended questions.

"They should branch out and broaden their ability to serve us," says a middle-aged man from a middle-income household in the South. "There should be no hindrance by government control," he adds.

In their open-ended responses, consumers spoke against government controls on interstate branching much more than they called for them. Nearly a quarter of the spontaneous answers mentioned that the banks had every right to cross state lines or that it's not a place for government control.

But nearly half of these same consumers are calling for tougher regulation of banks, and only a third support expanded powers for banks. The issue also divides those who oppose new powers for banks, with nearly as many of that group favoring interstate banking as those who oppose it.

Some observers argue that interstate banking ranks among the many arcane issues facing a complicated industry, and that consumers can't be well informed enough to offer strong opinions. The issue may have its subtle sides, but if it comes alive in an area, "it usually gets front-page headlines," says Mr. Guenther.

That still doesn't mean the public really cares, says John W. McIntyre, president of Citizens and Southern National Bank, Atlanta. "The press and corporate customers have reacted vigorously, but I think consumers have

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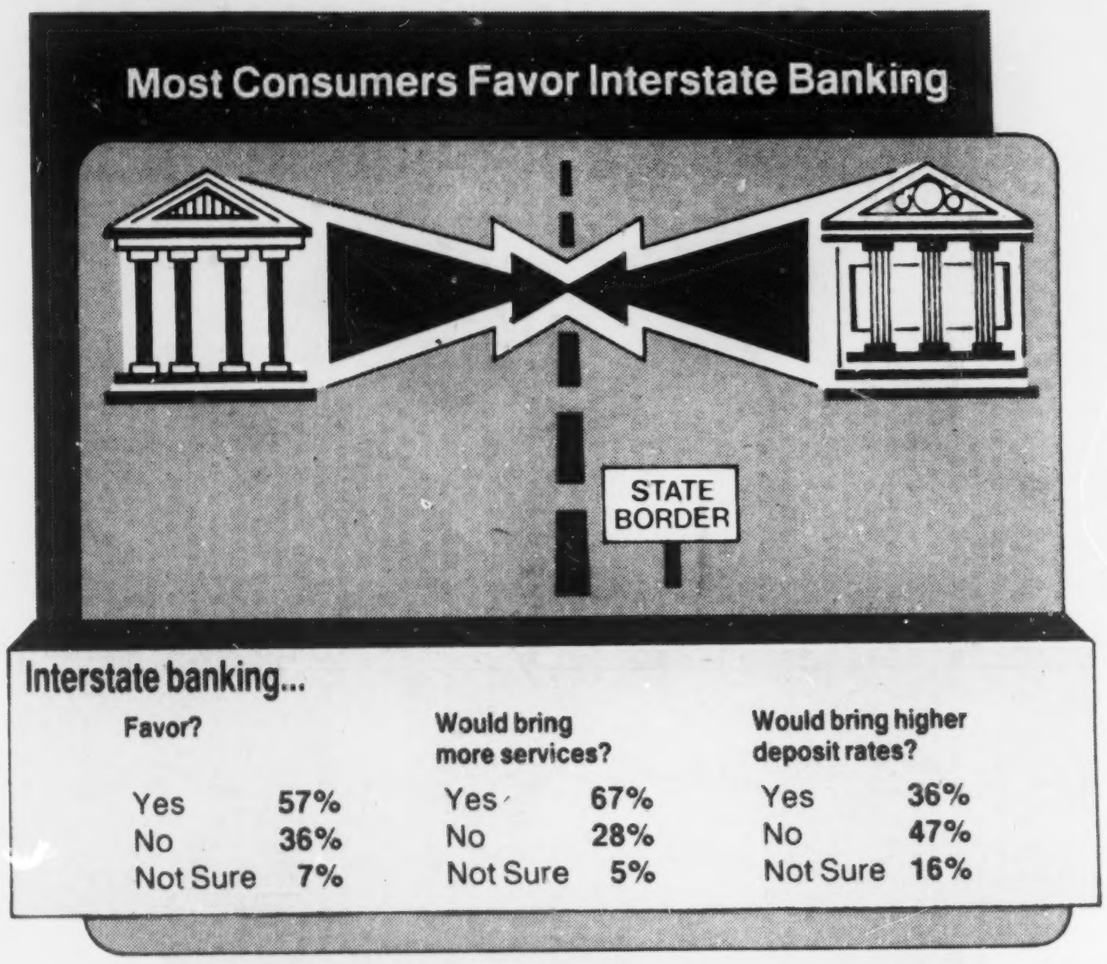
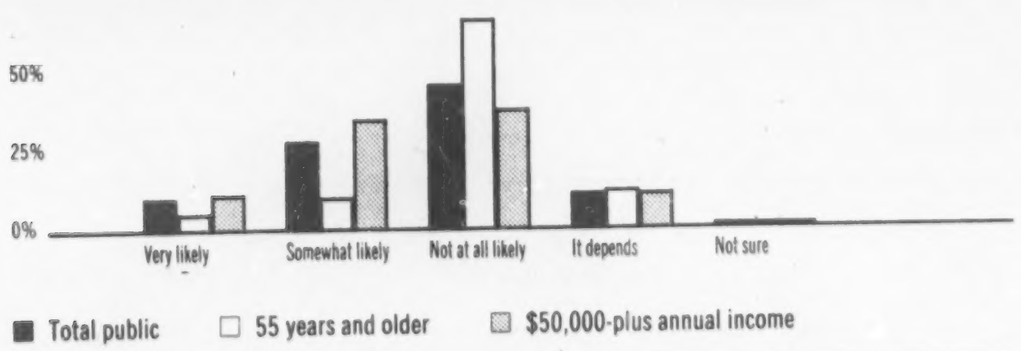


They welcome the convenience, but don't think interstate banking will put any more money in their pockets.

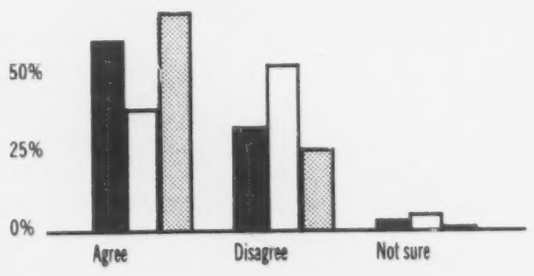
Elderly resist interstate banking, but the wealthy welcome it

Q. Would you open an account at the local branch of an out-of-state bank?

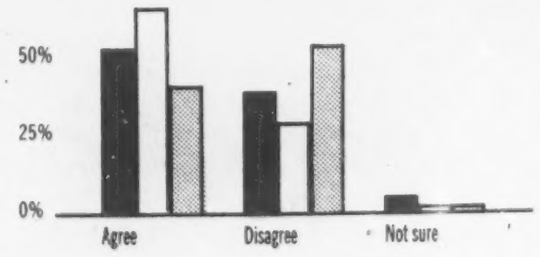


Elderly fear loss of small banks more than wealthy

Small local banks wouldn't be able to compete with interstate banking.



Big banks can never take the place of local banks for customer service.



Mail and Phone Operations Rev Up Banks' Interstate Business

Outside the fanfare of the battles over allowing the marble columns of a bank's branches to straddle state lines, many financial institutions have quietly built interstate operations through the mail, telephone, and electronic communications.

Nearly one in 10 Americans surveyed in a study commissioned by the *American Banker* already fancies himself as an interstate financial customer.

Interstate Banking

But that number is unquestionably low considering the millions of credit card accounts already extended by lenders to distant customers, bankers say. Many consumers with those charge cards simply don't realize they've entered the interstate era, a fact criticized by some banking leaders who say their industry is too shy to tout the advantages of its nontraditional accounts.

"We get so caught up in our own business that we forget that people don't understand all that is happening and what we want to happen," says Clifford W. Stone, chairman of Walnut Valley National Bank, El Dorado, Kan.

The number also is growing, says Robert Heady, publisher of *Bank Rate Monitor*, a publication that describes account offerings at banks and thrifts across the country. He says the number of people interested in long-distance banking services continues to increase, "judging from the continuing growth of interest in our publication."

Of the consumers who know of their interstate accounts, upper-income consumers outnumber lower-income customers five to one, and patrons of brokerage firms and mutual funds appear to use their interstate operations more frequently. The small sample of active interstate customers, though, and the apparent underrepresentation of credit card accounts, make these conclusions tentative.

Almost half of those customers send their savings through the mail, with checking accounts coming in a close second and credit cards cited as the third most common type of interstate account.

Banking by mail dominates their methods of communication, with six out of 10 interstate accounts usually taken care of through correspondence. Postbox service also seems a little more popular in the North Central region of the country than in other areas.

Telephones commonly service another quarter of the interstate accounts cited by the survey respondents. Women seem to like banking by mail a little better than men, who conduct more of their interstate banking business by phone.

A little more than 1% of those surveyed also report that they've used one of the newest innovations in banking services — the national and regional networks of automated teller machines that allow long-distance transactions through electronic communications.

In assessing their dealings with distant institutions, the interstate customers give the same rating that they do for their principal institutions — 95% say they are at least somewhat satisfied with the service they receive.

None of the other interstate services have crept in so unobtrusively as to escape the consumer's eye as the millions of credit card customers who send their monthly payment to a bank in another state. Officials at Visa International, for example, estimate that at least a quarter of the company's 60 million cardholders get their credit from a bank in another state.

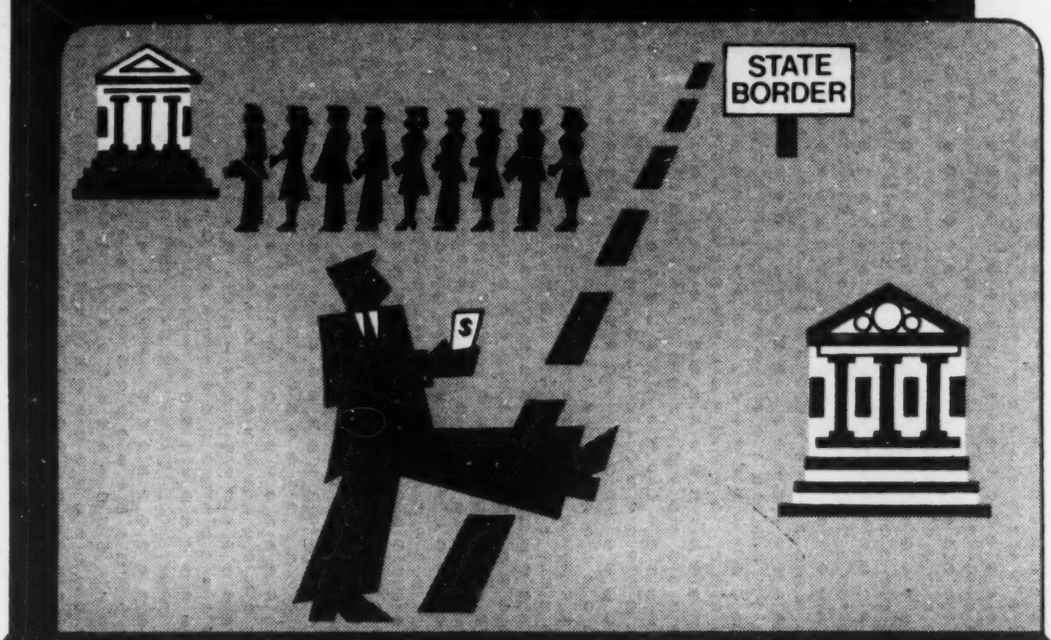
They alone would outnumber the 8% of adult consumers who say they know they have an interstate banking relationship, according to the survey results.

"It's just that so many people don't even realize where the credit is coming from. They just know they have a Visa card," said Richard Rossi, a spokesman for Visa at the company's headquarters in California.

That fact brings to mind the critics of the low-key strategy that commercial banks have largely pursued in seeking new powers, including interstate branching. "The banking industry just hasn't done a good job in pointing out the advantages that the public would enjoy if the banks were freed from many of their restrictions," says C.T. Conover, former Comptroller of the Currency and a strong advocate of banking deregulation.

Mr. Stone of Walnut Stone says he has lobbied a number of banking trade groups to start buying "advocacy advertising" to sell the industry's message. "I've gotten nowhere in all these years, not with my local association, the state association, or national groups," he says. ■

Nearly One in Ten Americans Already Use Banks Across State Lines



Maintain account across state lines?		What kind of interstate accounts				Have used ATM in different part of country?	
Yes	8%	Savings	46%	Money market	10%	Yes	1.4%
		Checking	41%	CD	8%		
		Charge Card	24%	Brokerage	4%		
		Loan	15%				

Savings and checking accounts attract the most interstate business, with credit cards a distant third.

What Consumers Say About Interstate Banking

"I feel they need to diversify their interests. Banks would become healthier if they branched out; they could make more money...

— Middle-aged man from an upper-income household in the South.

I think banks should be free to be interstate. Why restrict them to one state, particularly if they're federally insured?

— Elderly woman from an upper-income household in the West."

Continued from Page 6

yawned about interstate banking."

But a yawn isn't necessarily discouraging for interstate supporters, judging from the many more consumers who mention that they see no reason to oppose it as compared to the far fewer who say they see no reason to support cross-border branching.

Besides, a few respondents note, many banks are breaching the gaps anyway. "The laws aren't effective. There should be free competition," says a young man from an upper-income household in the South.

The South lends the strongest geographical support to interstate banking, though only five percentage points more people in that group answered affirmatively than in the total survey group. But it's much stronger there than than in the North Central states, where interstate banking earned only half the surveyed group's support.

Residents who roam the already franchise-dominated byways of American suburbs also show a little more welcome for the out-of-state banker than do urban and small-town dwellers.

Dear Reader, How Are We Doing?

The American Banker wants very much to provide you with information that is useful to you in managing your institutions. Would you take a moment to give us some feedback on the new survey, **How Consumer America Views the Changing Financial System.** Please return this questionnaire to William Zimmerman, Editor, American Banker, One State Street Plaza, New York, N.Y. 10004-1549 (212) 943-5712.

(1.) How useful was the information in this consumer survey?

(A) Very Useful ☐
(B) Useful ☐
(C) Not Useful ☐

(2.) What do you like **best** about this survey?

_____

_____

(3.) What do you like **least** about this survey?

_____

_____

(4.) What themes or topics would you like to see explored in future surveys?

_____

_____

Name (optional) _____

Title _____

Company _____

Address _____

Phone _____

How Consumer America Views the Changing Financial System

Banks Improve Public Rating

Poll Finds More Customers Are Satisfied; Reason Unclear

Commercial banks apparently have made real progress in satisfying their customers, though nobody seems to know for sure why.

Banks narrowed much of the gap that existed last year between the level of satisfaction expressed by their customers and the satisfaction level of customers of thrifts and credit unions, as measured by the second study commissioned by the *American Banker* of public attitudes toward banking and financial services.

Customer Satisfaction

But credit unions remain the most effective in pleasing their customers, having earned a "very satisfied" nod from seven out of 10 credit union members in 1985, the same as last year. When both "fairly satisfied" and "very satisfied" opinions are included, almost all institutions come out with a positive rating in the 95% range; the distinctions seem to be in how many are very satisfied.

Banks still fell short of credit unions in that sense, with only about two-thirds of bank customers giving their institution the top rating. But it that's a big improvement over 1984, when a little more than one consumer in two pegged the service at commercial banks as very satisfying.

"It's a significant jump — I guess it's possible that banks were trying harder over the last year or two," says Stephen Brobeck, executive director of the Consumer Federation of America. He cites the focus that his and other consumer groups have given to banking in recent years, as deregulation disrupted the market and often baffled the public.

Consumers rate the safety of their money when deposited in the following:

Their principal financial institution ..	86.5
Commercial banks	78.5
Credit unions	77.1
Savings banks	76.8
Savings and loans	73.2
Mutual/money market funds	72.1
Insurance companies	71.3
Brokerage firms	64.4

(0=lowest, 100=highest; figures are mean average of responses)

Banks seemed to race after new opportunities and neglected their traditional business with consumers, Mr. Brobeck says. "But with the pressure from consumer groups and the press, I think banks became aware a year or two ago that they were losing customers from middle America," he adds.

Consumers seem more pleased with other players in the financial markets, as well, with an increase of five percentage points among all those surveyed who say they are very satisfied with their principal institution. Some of that may simply reflect overall satisfaction among consumers with the country's stable economy, but it is nonetheless a boon for marketers of financial services.

"When people feel good about the economic conditions, it clearly translates to their financial institution," says John W. McIntyre, president of Citizens and Southern National Bank in Atlanta.

The use of electronics in banks, such as automated teller machines, has greatly increased in the past year and may explain some of the improved customer satisfaction, says James G. Cairns, who is stepping down as president of the American Bankers Association.

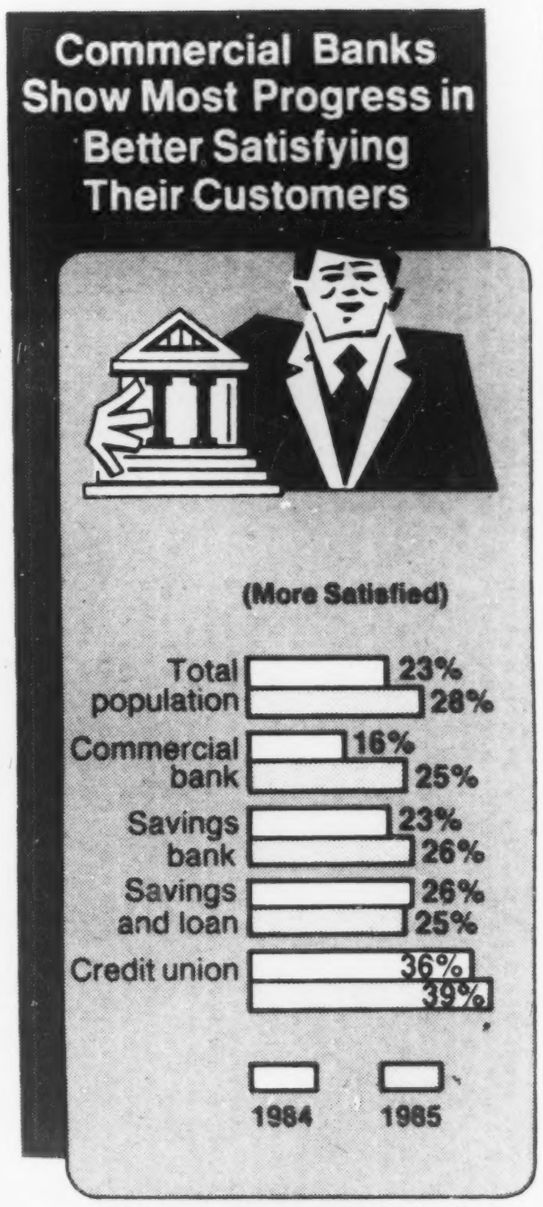
He also notes that banks are just in the beginning stages with electronics. "Point-of-sale systems are just breaking and will cause electronics to have a major impact on customer convenience in the next couple of years," says Mr. Cairns, president of Peoples National Bank of Washington in Seattle.

Others point to the the growing concerns about deposit insurance, prompted both by the collapse of private funds in Ohio and Maryland and questions about the Federal Savings and Loan Insurance Corp. Those concerns may have helped distinguish commercial banks in the minds of the public, says Joseph "Jake" Lewis, an aide to Rep. Fernand J. St Germain, chairman of the House Banking Committee.

"Banks so far seem to have best managed to weather a prolonged period of concern about the financial industry," he says.

Some of that impression might be gleaned from ratings offered by consumers on how well they expect different institutions to protect their money. After giving their principal financial institution the highest rating, consumers as a whole rated commercial banks the safest place for their money.

The survey responses rated credit unions as the second safest depository, with savings banks close behind and savings and loans a few more points down.



Are you more satisfied with your principal financial institution as compared to a few years ago?

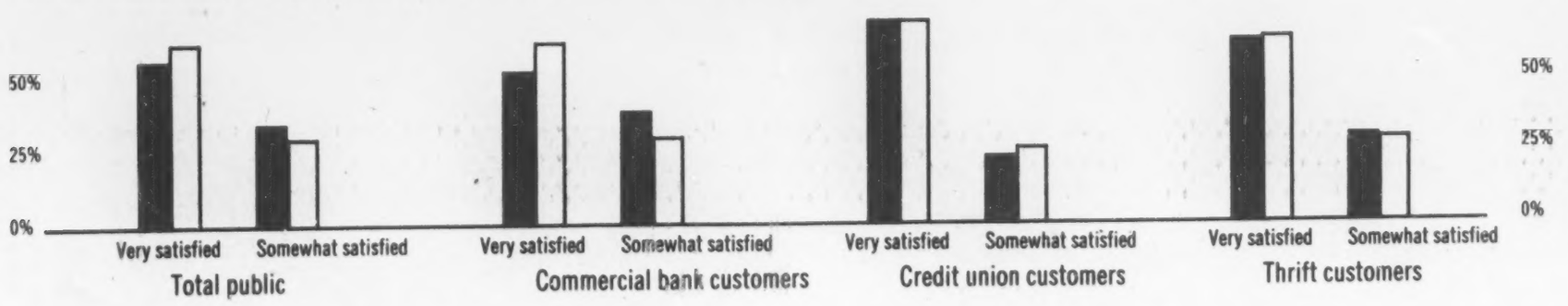
Beyond the safety issue, it seems unclear why commercial banks did better this year than in 1984 on customer satisfaction. "We've seen some efforts to respond to consumer demands out this way, but I don't think it's been overwhelming," says John Lane, a San Francisco-based review examiner and specialist in consumer affairs for the Federal Deposit Insurance Corp.

In looking at financial institutions as a whole, younger adults changed little in their overall impression of how well they are served. But middle-aged and older adults moved significantly from being somewhat satisfied to very satisfied. Some 64% of the elderly reported being very satisfied with financial institutions in 1984, and that figure jumped to 75% this year; adults from 35 to 54 who said they are very satisfied jumped from 55% last year to 67% in 1985.

Improvements in satisfaction were close to the average across different income levels, though minorities showed a jump in those very satisfied from 52% to 63%. Households with more than two residents also showed an unusual jump in satisfaction, from 58% very satisfied last year to 71% this year. ■

Commercial banks see a jump in very satisfied customers

Q: How satisfied are you with your principal financial institution?



'Supermarkets' Gain as Traditional Institutions Slip

Supermarket shopping for financial services may have made slight headway with consumers in the past year, according to a study of consumer attitudes toward banking commissioned by the *American Banker*.

Compared with last year's survey of the same institutions, each type of financial company apparently lost some market penetration as consumers re-

Customer Satisfaction

duced the average number of accounts they hold from just over three each to just under three. Savings banks and insurance companies lost the largest share of their 1984 market penetration, with commercial banks also losing a number of their less loyal customers.

The trend may reflect some success for those financial institutions that want to tout themselves as supermarkets of services, but the concept will never spell the end for the smaller and specialized institution, says Richard Curtin, who directs consumer attitude surveys for the University of Michigan's Institute for Social Research in Ann Arbor.

"Just look at food supermarkets; their rise did not kill off the specialty stores," he says, adding that there will always be niches for specialty shops in financial services.

Each kind of financial firm did retain most of their core customers, that is, the people who named each institution as their principal banking facility.

Principal Financial Institution

	1984	1985
Commercial bank	40%	42%
Savings and loan	18	18
Savings bank	14	13
Credit union	14	13
Brokerage firm	2	3
Insurance company	3	2
Mutual or money market fund	3	2
Finance company	1	2
None	3	2
Not sure	2	2

Those results suggest that the slight changes noted in the use of financial institutions do not translate into any major shifts of more loyal customers, says Molly Totoro, project director of the consumer survey for Reichman Research Inc.

Commercial banks apparently gained a point or two in their market share of solid core customers in 1985, while thrifts and credit unions each had slightly fewer consumers name them as their principal institution, the survey results show.

More subtle shifts in market shares may reflect events in a tumultuous year for banking and financial services. An example is the rate war that raged late last summer for consumer deposits in New York City, a war in which commercial banks fired the first salvo and held the high ground throughout.

"It was tough on us; most of the city's savings banks struggled to match the rates that were being offered by

the big banks," recalls Austin S. Murphy, chairman of the East River Savings Bank, New York.

Couple the rate war with the commercial banks' focus on affluent consumers, and much of the banks' small gain in market share of core customers came from households with annual incomes of better than $50,000. Some four in ten of those upper-income customers called a commercial bank their principal financial institution in 1984, a number that grew by half this year to about six in ten.

Most of those new customers apparently came from the Northeast, where only a third of the respondents named commercial banks as their principal provider of financial services in 1984. That increased to four in ten in the 1985 survey.

The data on a breakdown of the market share of institutions other than commercial banks, thrifts, and credit unions may be misleading because of the small sampling in the survey. But the data reflect that fewer affluent customers this year named mutual funds, credit unions, and savings and loans as their principal institution.

The impact of other news may help explain some of the loss of secondary customers by thrifts. Much of that loss came in the North Central region of the country, which includes Ohio and was dominated by that state's thrift crisis of last spring. Home State Savings Bank, a Cincinnati thrift, set off the panic after suffering huge losses from the collapse of an obscure government securities dealer in Florida.

Credit unions were the only savings institution in the North Central region to gain some market share over 1984, but it was a small increase in customers who say they maintain accounts there. The unions picked up two points of market share there, while banks lost nine points, and savings banks 17 points. Insurance companies lost nine percentage points of the customers who said they maintained banking relationships there in 1984.

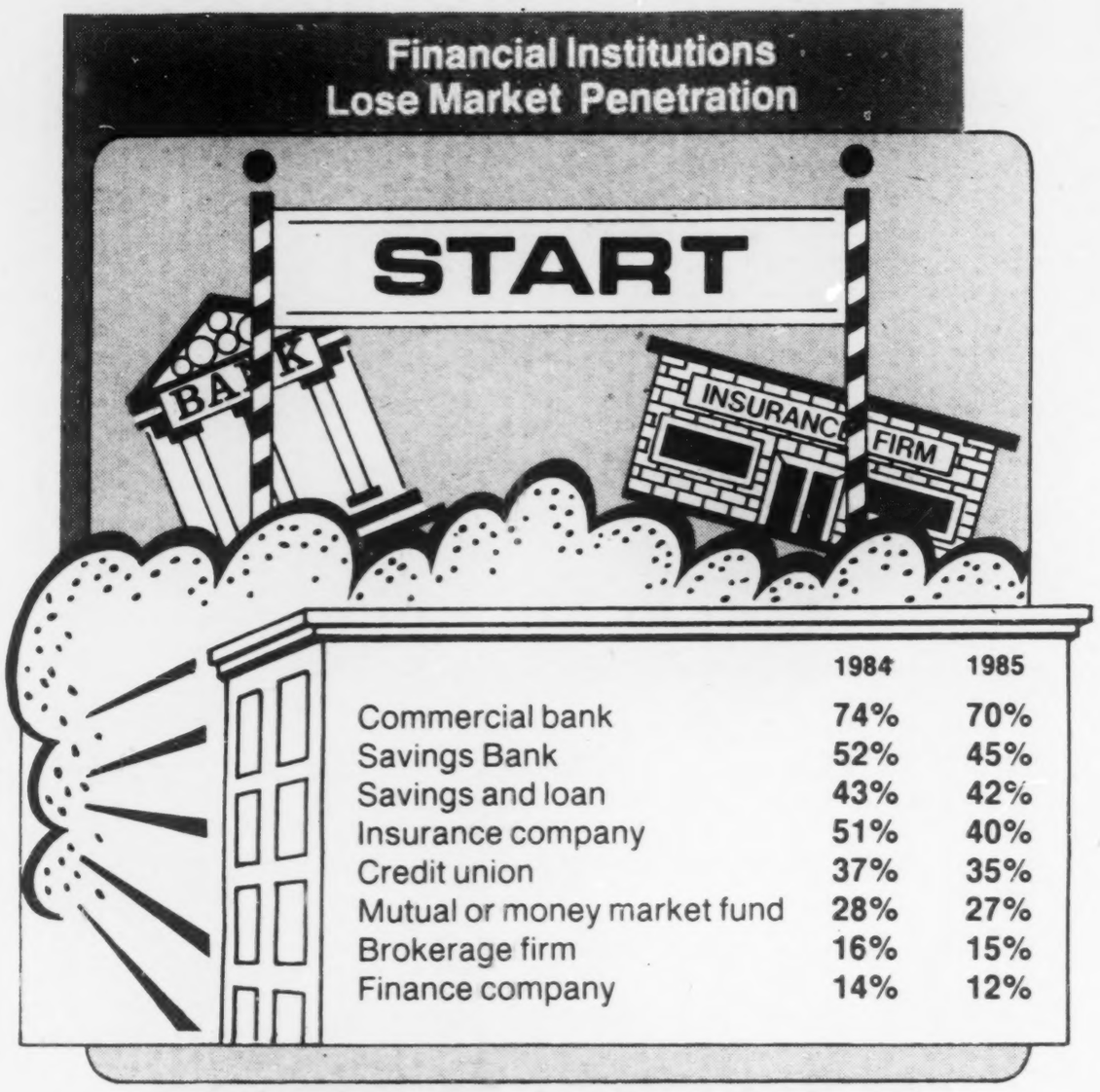
Similar shifts occurred with consumers in the North Central region in naming their principal institution. Credit unions remained steady, while thrifts and commercial banks each lost some core customers.

For the nation as a whole, savings banks also lost a notable share of their hold on urban markets in the number of customers naming them as their principal institution, from 17% in 1984 to 12% in 1985. Savings banks also lost a comparable share of minorities and the elderly as account holders.

The elderly proved somewhat fickle this year, with credit unions losing half of their older account holders who considered the unions their principal place for banking. Savings and loans also lost a few elderly customers, according to the survey data.

The loss of customers by insurance companies appeared more consistent across geographical areas, ages, and income levels. The losses cost the insurers an average of about one-fifth of the consumers who said they maintained accounts with insurance companies.

But in core customers — those who call insurance companies their primary banking institution — the industry did manage to retain most of their small share.



Insurance companies and savings banks lose the most ground among institutions where consumers say they maintain accounts.

Consumers Aren't Convinced Banks Need More Powers

Commercial bankers failed to make progress during the past year in convincing consumers of the need to expand the banking industry's powers, according to a study commissioned by the *American Banker*.

Yet bankers may have a tough time protecting their turf, as consumers show less resistance to other industries invading the banking business than they do to allowing new powers for banks, according to results from this year's survey on consumer attitudes toward financial services.

Expanded Powers

About a third of the survey respondents support additional powers for banks, such as real estate and insurance services, but half continue to oppose those changes. A few more support the general concept of additional powers when real estate and insurance are not mentioned.

But the results in both cases show virtually no change from the responses to the same question in 1984.

"I'm not surprised that banks have gained no ground — actually I'm surprised their support for new powers hasn't slipped some in the past year," says C.T. Conover, who was a strong advocate of banking deregulation as comptroller of the currency. Mr. Conover, who now works in the private sector in California, says the feeling remains among the public that only banks would benefit from deregulation, not consumers.

"That's why we haven't seen any legislation come out of Congress, despite the continuing discussions and lobbying by bankers," he says.

The most frequent argument against the new powers centers on consumer fear of diversification by their banks, according to responses to an open-ended question. Nearly half of those opposed to expanded bank powers said something about banks not having the expertise for new fields and that they should stick to their specialty of collecting deposits and making loans.

"I think that if the banks branch out into the insurance and real estate businesses that it would be a very risky venture," says a young man from an upper-middle income household in the Northeast. "It would put a definite strain on the establishments they have now — it would jeopardize the stability of the bank itself."

Or as put by an elderly woman from a low-income household in the Northeast, "Times change, but I don't think banks need to change."

That theme carries through to the mixed opinion of consumers on whether additional powers might improve the health of the banking industry. Those polled split almost evenly when asked if new powers might lead to better health for the industry, a new question asked in this year's survey.

The survey is the second commissioned by the *American Banker* to measure public attitudes toward banking and financial services.

New Support from the Affluent

Most promising for bank lobbyists is growing support among affluent customers — those with annual incomes of at least $50,000 — for new bank powers. That group increased its support slightly in the question that asked about allowing banks into real estate and insurance.

Upper-income respondents showed an even more dramatic increase in support for new powers when real estate and insurance were not mentioned specifically. More than half of those making $50,000 or more supported new bank powers in general in 1985, compared with a third of that group in 1984.

Backing for expanded bank powers remained strongest among younger respondents, whose support was almost double that of the elderly. Older respondents, though, did increase their support a bit this year.

About half of minority respondents continue to support new bank powers — some 20 percentage points higher than among white consumers.

Continued on Page 10

What Consumers Say About Expanded Bank Powers

"It's like McDonald's — they once specialized only in making burgers. Now they make sandwiches and other stuff and the speed and quality of their serrvice has gone down. You should stick with one business and make it thrive instead of diversifying...

— Middle-aged man from the Northeast

I believe in free enterprise. They can do whatever they want if they have the money...

— Middle-aged man from an upper middle-income household in the South

I just don't feel that they have the expertise for these things...

— Young man from a lower-income household in the South

It would make them full-service entities, so there will be no middlemen to eat up more of your money...

— Young woman from the West"

How Consumer America Views the Changing Financial System

Banks Gain No Support for New Powers

Is it a good idea to allow banks to offer new services such as insurance and real estate?

	1984	1985
Yes	33%	34%
No	50%	52%
Not sure	17%	14%

Banks Have Less Consumer Support in Protecting Their Turf

Consumers are more likely to support other industries that want to offer banking services than to support the efforts of banks to get into new businesses.

	Good idea	Not a good idea
Banks into new businesses	34%	52%
Other companies into banking	44%	45%

Continued from Page 9

Residents of the Northeast remained steady in leading the support for additional bank powers, with the weakest support still coming from the North Central region.

Half the respondents in 1985 still disagree with the statement that banks suffer too much regulation to compete effectively against other firms providing financial services, though nearly a third of those surveyed agree that regulations stymie the competitive efforts of banks.

Nonbank Competition

Banks having to face more competition for consumer financial services seems less troubling to consumers, as revealed in a new question included in this year's survey. Asked if it is a good idea for nonbank companies to get into financial services, consumers offered a mixed view overall — split about evenly between calling it a good or bad idea.

But in the West, where residents say they favor other companies getting into banking, some 53% are in favor and 36% opposed. The lowest regional support for the concept comes from the North Central region, where 39% of residents support letting other businesses into banking and 46% oppose it.

"Actually, I think it's a nonissue," says Marion O. Sandler, president of the Golden West Financial Corp., a thrift holding company in Oakland, Calif. Ms. Sandler is among the financial executives who face direct competition from the invading nonfinancial firms. Sears Savings Bank, a subsidiary of the giant retailer, also is located in Oakland.

Ms. Sandler thinks combining financial services with other businesses won't work in the long run. Like the conglomerates that were so popular in industry in the 1960s, she says, "I think we're seeing that the pieces aren't working together for Sears, Prudential-Bache, and the others trying to get into banking."

Bankers, though, generally take the threat seriously, particularly since they haven't been granted the additional freedoms that the thrift industry has. Thrifts already have won limited powers to invest in such things as equity stocks and real estate.

"Everybody talks about the new powers that banks have received, but banks just haven't received any," says James G. Cairns, who is stepping down as president of the American Bankers Association.

The need for additional powers remains one of the association's biggest challenges, he says, particularly in light of the *American Banker* survey results. He calls the news that banks gained no support for new powers "disappointing, but not that surprising."

The difficulty centers on showing consumers specifically how they can benefit from additional powers for banks. It's easier for consumers to see the potential benefit of other companies coming into banking, Mr. Cairns says. "They see it as additional competition for us, and they've no real problem with buying financial services from somebody else." ■

A Quarter of Country Says Banks Are Stronger Than Thrifts

"The depositors couldn't get their money and the government stepped in and temporarily closed the banks."

— A young man from the South recently recalling the problems of thrifts in Ohio and Maryland.

In the most profitable year on record for American thrifts, evidence surfaces that the industry has lost some of its grip on its most cherised franchise — public confidence.

Two in three consumers still express equal confidence in banks and thrifts. But that remaining third is four times more likely to choose a bank to protect their money, according to responses to a nationwide survey commissioned by the *American Banker.*

Consumer Confidence

"It's the first-choice reflex among our customers that it looks like we're losing," says Paul Willax, chairman of Empire of America, Buffalo. He and other thrift leaders express disappointment in the findings, but little real surprise.

They point to the temporary thrift closings in Ohio and Maryland, promptly recalled by the young man above and many others nationwide. Those thrift crises developed last spring, just months before the survey was conducted.

But few thrift executives would expect to see improvement in the public's confidence in thrifts since the survey, which was conducted in late July. "You can bet that if you asked the same questions today, the numbers would come in even lower," says Marion O. Sandler, president of the World Savings & Loan Association, Oakland.

To illustrate continuing bad news, she points to recent proposals to pump money into the mammoth federal fund that protects deposits in every state. It was the collapse of state-sponsored insurance funds in Ohio and Maryland, as well as one the year before in California, that led to runs on thrifts and the freezing of deposits.

Now concern also centers on the Federal Savings and Loan Insurance Corp., whose future has divided the thrift industry like few issues before.

Commercial banks, as well, have simply done a better job in blunting any public concern about their problems, says Dennis Jacobe, research director for the U.S. League of Savings Institutions. "They've deflected attention from their problems with international loans, potential losses that easily eclipse those of the thrifts, and they've done it partly by harping on the problems of the state funds that collapsed," he says.

The survey points to some bright spots in the thrift industry, though, and suggests a certain level of sophistication in consumer understanding of the role of federal insurance.

Customers of savings banks, for example, appear more confident in the financial system than those of savings and loans. In a general question about the state of the nation's savings institutions, three-in-four customers of savings banks express optimism for the system's health, compared to two-in-thee customers of savings and loan customers.

The difference probably reflects tranquility in traditional roost of savings banks, the Northeast. That region does indeed express more overall optimism for financial institutions than the rest of the nation, according to the survey responses. Some 81% of Northeasterners consider the system essentially healthy, for example, compared to a low of 67% in the West.

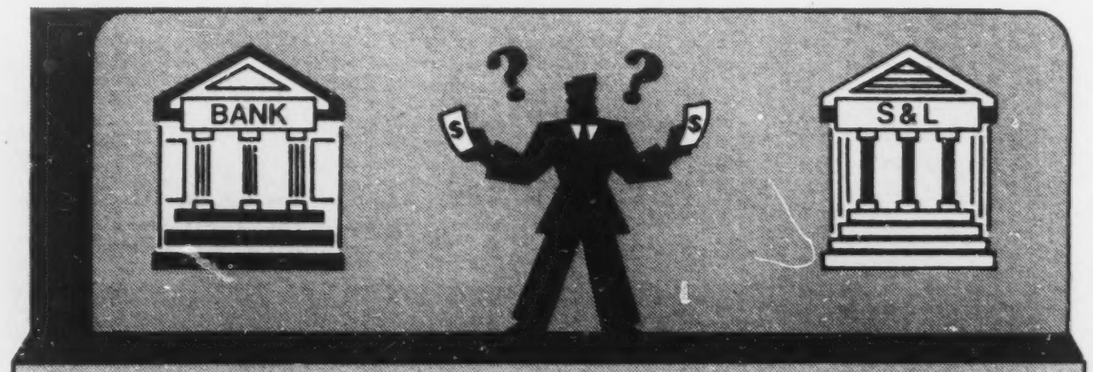
"The Northeast has escaped the problems that plagued thrifts in the West, Southeast, Southwest, as well as Ohio and Maryland," says Mr. Jacobe.

The region, in fact, saw the easing of some of its most pressing problems during the past year. The huge losses of savings banks in New York City, which peaked in 1982 and 1983 but continued into last year, finally eased.

Most of the savings banks even returned to profitability as rates came down and stabilized. Attention instead

Continued on Next Page

Consumers Are Four Times as Likely to Call Banks Stronger than S&Ls



Do ycu have more confidence in keeping your money in a federally insured commercial bank or in a federally insured savings and loan?

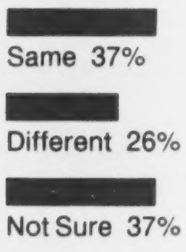
Commercial bank	Savings and loan	Equal Confidence
26%	6%	65%

turned to the bailouts of the worst cases, led by the Bowery Savings Bank. Federal officials last month proudly unveiled a half-billion dollar recapitalization plan for the Bowery.

Those international loans, which most threaten the money center banks of New York, also receded from the front page, Mr. Jacobe notes.

As previously reported, consumers generally express as much, and perhaps slightly more, optimism in the savings system as compared to a similar study commissioned by *American Banker* in 1984. Thrift customers also reflect stability in their faith over the last year, but no real increase.

Few people distinguish between federal deposit insurance at commercial banks and at savings and loans:



Some 78% of commercial bank customers, for example, express confidence in the system's health, an increase over 73% in 1984. Thrift customers showed an insignificant change, from 68% expressing general optimism in 1984 to 70% in 1985.

Consumers also seem to see no clear distinction between the national fund that guarantees deposits at banks, the Federal Deposit Insurance Corp., or in FSLIC. Only a quarter say they see a clear difference between the funds.

But when probed further, those that see a differerence are nearly evenly split on endorsing one fund over the other — 20% endorse FSLIC over FDIC, 23% go the other way. The responses, though, don't reflect any impact that may have resulted from the most recent discussions on FSLIC.

Most executives assume that consumers understand the backing of the federal government in either case. That may be a side benefit from the problems with the state funds, suggests Donald I. Hovde, a member of the Federal Home Loan Bank Board.

Yet the industry as a whole "was victimized" by those events, he says. "The headlines in Europe just said that American thrifts had shut down," Mr. Hovde recalls.

The American public for a full week watched as people lined up outside the closed thrifts, scenes that couldn't be erased by later reports that the state officials stepped in to repay depositors.

"Consumers saw that they probably get their money back, so they haven't any reason to panic," says Stephen Brobeck, executive vice president of the Consumer Federation of America. "But they also saw that with certain institutions, they could lose access to their money for months."

Federal thrifts, too, have suffered increasing losses. Some again are victims of scams, such as government securities dealers and real estate speculators, Mr. Hovde says. Other consciously gambled the ship, particularly in Southern California's volatile real estate market.

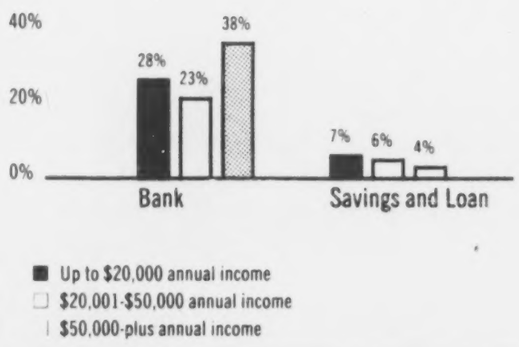
That market around Los Angeles and San Diego, home to some of the nation's largest and most profitable thrifts, probably best reflects the industry's current dilemma.

It's a frustrating case of haves and have nots; a sector with 90% of its members enjoying record profits that should top $5 billion in 1985 natiownide. But of the 10%, some are thrifts that remain crippled by the interest rate squeeze of 1981 and 1982, and an increasing number are victims of spectacularly bad loans.

The average cost of closing a thrift in 1984 jumped by as much as three-to-five times the cost in the early 1980s because of the emergence of sour loans, according to Congressional testimony by Edwin J. Gray, chairman of the Federal Home Loan Bank Board. That has led to his concern that FSLIC may prove insufficient to cover the next wave of losses.

Wealthy most likely to show more confidence in banks

Q. Do you have more confidence in keeping your money in a federally insured commercial bank, or in a federally insured savings and loan association?



Mr. Hovde disagrees and doesn't like open talk of potential FSLIC insolvency. He argues that beefed-up examinations and a steamlined bureaucracy, efforts led by Mr. Gray, should stifle future problems and enable the industry to ride out current losses.

The very nature of the losses adds heat to the debate, however. It's a case of strong institutions getting stronger, and the weak getting weaker. Not that the thrift industry suffers that dilemma alone; banks also suffer from a similar "polariziation," according to reports from Veribanc Inc., a Massachussets firm that monitors the performance of banks and thrifts nationwide.

The issue seems more urgent to the thrift industry, which once seemed united against its traditional nemace of high interest rates. Now the industry faces problems that seem isolated to a few.

Different bailout plans that would tap the highly successful Federal Home Loan Banks, for example, create some of the most bitter controversy. The banks are independently owned by the thrifts, and dominated by the healthy members.

"I'll pull out all of our investment in the New York bank if it puts one penny into those bad assets of FSLIC," says the chairman of a large and profitable savings bank in New York City.

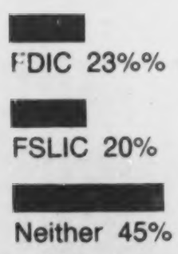
Yet unless the few are rescued by the many, they could bring down the industry, Mr. Gray argues.

The industry must get past its dichotomy if it hopes to survive. Says Mr. Willax, "It's going to take extraordinary leadership."

Mr. Hovde tries to assure the industry and the public that the leadership can handle the problems. "Ask consumers the same question again in 1986, and I think that they'll put thrifts on parity with banks," he boldly predicts. ■

Neither fund wins endorsement

Of those who see a difference between the federal funds backing deposits at banks or thrifts, the percent who endorse either as superior:



Thrift Woes And the Public

A majority of consumers nationwide have heard of problems that face the thrift industry, and that awareness appears to somewhat chill the public's attitude toward financial instiutitons in general, according to a study commissioned by *American Banker*.

More than six-in-ten consumers say they've heard of savings and loans having serious troubles. Those aware of thrift problems are more likely to express doubts about the overall health of the American financial system, and are less likely to support the efforts of bankers to expand geographically or into new services.

Thrift Problems

"It's clear that news about the continuing crises of the savings industry is getting through to the public; they know what's going on," says James K. Anderson, chairman of Pacific First Federal Savings Bank, Tacoma, Wash.

The most dramatic thrift problems of the past year apparently weigh heavily in the public's assessment of the industry: about half of the total respondents to the nationwide survey say they are specifically familiar either with the thrift crises of Ohio or Maryland, or both.

The interviews were conducted in late July, just months after the failure of state-sponsored funds that backed deposits in Ohio and Maryland. *American Banker* sought to measure the impact of those events, among other issues, in the attitudes of consumers toward financial institutions in the second of the paper's annual surveys.

Hearing the news about thrift problems clearly chills the faith that consumers hold in the country's savings institutions, according to responses to the survey. The feeling that thrifts in general face problems raises the share of consumers who consider the financial system to be unhealthy, from 16% to 26%.

HOW CONSUMER AMERICA VIEWS THE CHANGING FINANCIAL SYSTEM

More copies of this 16-page reprint of *American Banker*'s recently published series examining how American consumers view the great changes in the financial system are available for purchase.

Based on its second annual survey of 1,000 households conducted with help from Reichman Research Inc., a New York opinion research firm, the reprint includes reviews of all issues covered during the series that ran in *American Banker* during October and November of 1985: how consumers view the health of the banking system, the integrity of bankers, and the performance of financial regulators.

Americans were asked, too, what they think about and expect from interstate banking; how they view banking by mail, telephone, and computer; and whether they favor the expansion of powers for financial institutions.

The survey reprint also reports on what kinds of financial institutions most satisfy people, and whether Americans like new electronic banking services such as automated teller machines, direct deposit programs, and banking by home computer. And what does the public think about the thrift industry's problems?

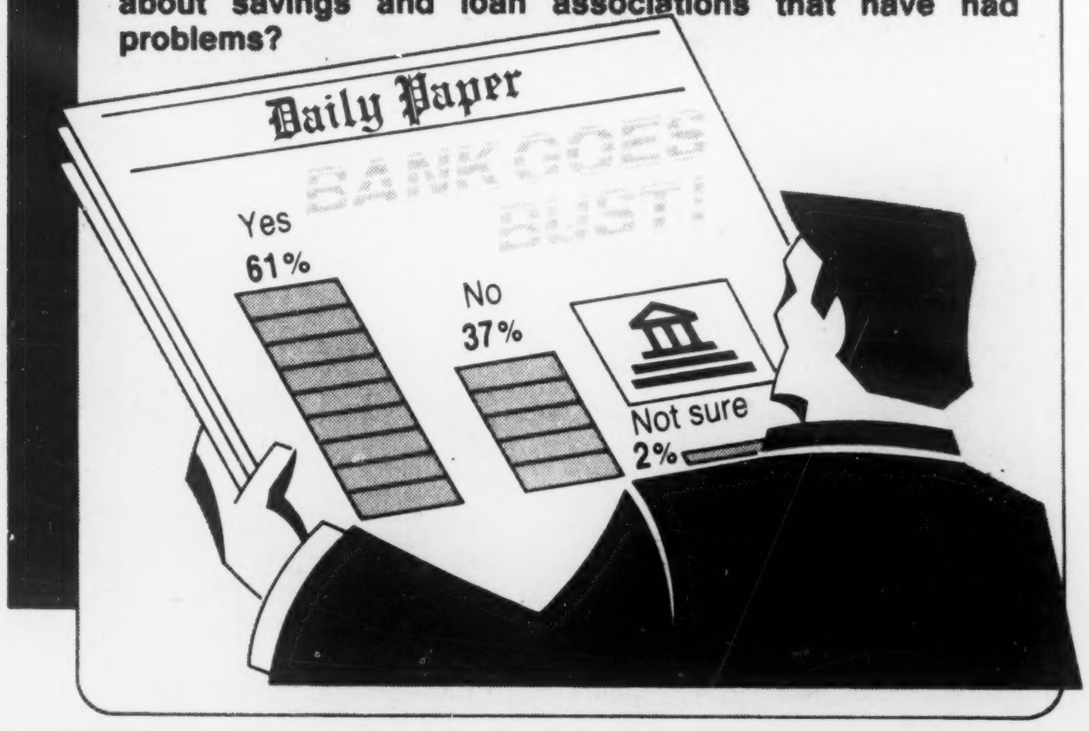
Copies of the *American Banker* reprint can be obtained by sending a check for $15 for each copy to: *American Banker*, Att: Gina Caputo, One State Street Plaza, New York 10004 (212-943-8677).

In addition, Reichman Research is making available the survey data in a variety of other formats, including a hard copy report, magnetic tape, and a diskette package. Additional information, including a copy of the questionnaire, can be obtained from David Reichman, president, Reichman Research Inc., 3 East 44th St., New York 10017 (212-986-7709).

This is the second *American Banker* consumer attitudes survey. Copies of the previous survey, published in 1984, are available for $10 each.

How Consumer America Views the Changing Financial System

Consumers Are Aware of Thrift Problems



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And among those who say they know specifically of the events in Ohio and Maryland, some 31% assess the financial system as unhealthy.

Not surprisingly, the greatest awareness of problems in Ohio comes from consumers in the Northcentral states — some 44% of consumers there say they heard of the collapse of that state's insurance fund. Ohio's problems actually began in Florida, where the failure in early March of a small government securities dealer, E.S.M. Government Securities Inc., led to huge losses at Home State Savings Bank, Cincinnati.

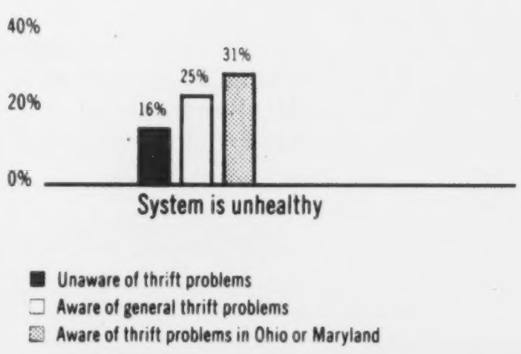
Intense press coverage of Home State's problems led to runs on institutions backed by Ohio Deposit Guaranty Fund, a privately-funded corporation that protected the deposits at some 100 thrifts in Ohio. Some of the state's thrift executives, in fact, blame the press coverage for spreading Home State's problems among the other institutions.

But when asked what they felt is the primary cause of serious problems at a financial institution, consumers overwhelmingly say that bad management ranks as the primary reason — pointed to by 63% of the survey group. Excessive press coverage ranked fifth, cited by only 4%. Other reasons include economic problems, cited by 12%; dishonest management, 10%; and faulty government supervision, 6%.

Looking specifically at those consumers who know of the problems of the thrift industry, some 69% cite bad management as the key problem. Only 54% of those unaware of thrift troubles consider bad management the prime threat to financial institutions.

Ohio and Maryland cause further erosion in public faith in system's health

Of those aware of thrift problems, the percent who say they rate the country's banking system as fairly or very unhealthy:



Consumer awareness of the problems in Maryland, which followed those of Ohio by a matter of weeks, was much less widespread nationwide and evenly spread among the regions.

"If you could focus on just the people around Washington, D.C. and Baltimore, you'd probably get high recognition of Maryland's thrift crisis," says Dennis Jacobe, research director of the U.S. League of Savings Institutions. "Maryland's problems received less national coverage than did Ohio's, though the press on Maryland was intense in the Washington-Baltimore area."

Ohio's drama apparently did more to scare consumers, as well. Consider that some 17% of the total survey group says it holds more confidence today in America's financial system than they did a few years ago; some 32% say they hold less confidence now. That's a less-/more confidence ratio of about 1.9 to 1.

If familiar with Maryland's problems, that ratio drops to 42% less confident, and 21% more confident, a clear 2 to 1 ratio. That ratio jumps to more than 3 to 1 if consumers are aware of Ohio's problems: 37% less confident to 11% more confident among consumers familiar with thrift failures in Ohio.

While the executives of most banks and thrifts that are federally insured report some increase in customer inquiries during the problems in those two states, most agree with John T. Morgan, chairman of American Savings Bank, New York City.

"The problems in those states really didn't reach us — we just didn't see any change in the attitudes of our customers toward our business," he says.

Mr. Anderson of Pacific First cites the results of a regional survey, conducted by his thrift and several competitors, that showed his institution generally ranked as high as commercial banks for safety in the minds of consumers. "The public apparently can differentiate one thrift from the problems of the industry when it comes to judging individual institutions," Mr. Anderson says.

But the effect does carry over into political questions, according to the *American Banker* survey. News about troubled thrifts apparently costs banks about a sixth of support for removing restrictions on interstate banking: while some 63% of consumers who are unaware of thrift problems support interstate banking, compared to 53% among those who have heard of the industry's trouble.

Thrift problems cause a similar erosion in the public's support for new banking powers. Responses seem evenly split among consumers who are unaware of thrift problems — some 46% favor new banking powers and 45% oppose them. That compares with 38% support among consumers aware of thrift problems, who also register 54% opposition. ■

Consumers rank what they consider the primary cause of trouble at financial institutions:

Bad management	63%
Problems in economy	12%
Dishonest management	10%
Faulty government supervision	6%
Too much news coverage	4%
Too many new powers	3%
Other	1%

Thrift Problems Hurt Public's View of System's Health

Percent of consumers who think banking system is unhealthy, when they are...

Aware of thrift problems
26%

Unaware of thrift problems
15%

What Consumers Say About Thrift Problems

"Most of the thrifts in Maryland and Ohio were not federally insured — that's why they were in trouble...

— Middle-aged man from an upper-middle income household in the Northeast

A bank out here went bankrupt and a lot of people lost their money. They've been trying to get it back for a long time now. I know that has created a lot of doubts in a lot of people's minds as to the safety of their money...

— Young woman from a middle-income household in the North Central region

They gave out big loans that they didn't get back. I don't think the banks investigate the people like they should before they give out loans...

— Middle-aged man from a lower-income household in the South

I recall that older people that thought they were investing their money lost their savings...

— Young woman from a southern household

The savings and loans over-extended themselves. They didn't hold back enough money to cover things when they got into trouble..."

— Middle-aged man from a western household"

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Bright Future of Video Banking Is Still There, but Further Away

Home banking has lost some of its charm among computing buffs, according to a study commissioned by the American Banker.

Home banking's potential market increased by 20% during the year, as more than one American household in five now has its own personal terminal.

But computer owners who say they would likely try home banking dropped significantly — from more than six consumers in 10, in 1984, to about five in 10 this year. A similar drop appeared among computer owners who say they are comfortable with

Home Banking

the general concept of shifting cash around via their home terminals.

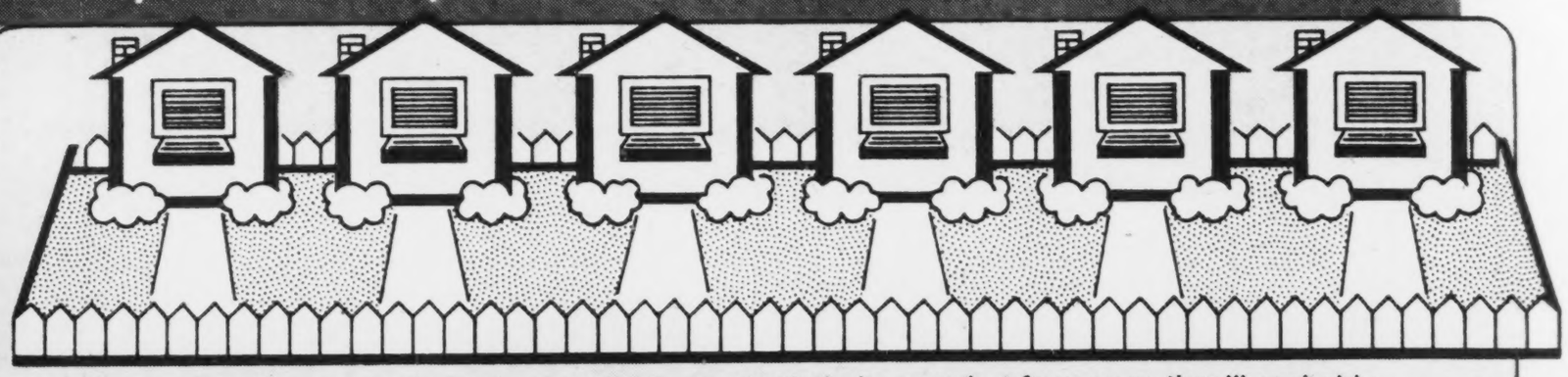
The softening in enthusiasm gives credence to a growing realization that home banking is no easy sell.

"Many people have been expecting this to be a revolution in banking, but revolutions only happen in politics. This is an evolution," says Charles Forbes, vice president for marketing and sales of Chemical Bank's home banking service. His operation, with more than 23,000 homes that conduct their banking transactions via a personal terminal, ranks as the country's largest.

While troubled by the lukewarm reception for home banking, proponents, nonetheless, eventually see a bright future for video banking. Even the more skeptical say that it will take more time, but that they still see it coming.

"Home banking has a good future — it's just not right now," says Patrick O'Sullivan, vice president for marketing at Worthen National Bank, Little Rock, Ark. Worthen this year ended a test of video banking services and decided against proceeding with a full program. Mr. O'Sullivan predicts that demand for home banking will not really heat up until the 1990s.

Computer Ownership Increases, But the Potential Market Decreases



More consumers say a personal computer is now in their homes, but fewer say they'll probably buy one in the next year.

Does someone in your household own a personal computer?

	1984	1985
Yes	18%	22%

Of those without one now, the percent who say they are likely to own a personal computer within the next twelve months:

	1984	1985
Yes	29%	26%

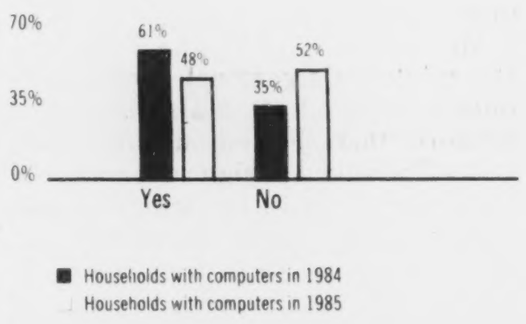
Do not own and unlikely to own:

1984	1985
57%	57%

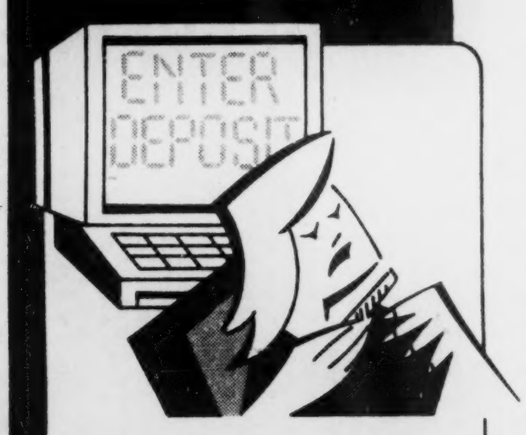
Bill Silbert

Computer owners shy away from home banking

Q. Are you comfortable with the idea of doing routine financial transactions from your home with a personal computer?



Enthusiasm for Home Banking Wanes



Would you consider using a service that allowed you to do banking at home through the use of a computer?

	1984	1985
Would seriously consider it	62%	51%
Would not seriously consider it	33%	45%
Now use	...	3%
Not sure	5%	1%

Many proponents, though, say the survey results reflect more of a changing market than a shrinking market.

"There's been a big change in who's buying computers since they first came out. Last year, you probably had a lot more 'bits and bytes junkies' who had more interest in anything available for their computers," says Thomas Byrne, vice president and group product manager in charge of the new video banking program of Home Federal Savings and Loan Association, San Diego.

The American Banker's survey, in fact, reflects a broadening of computer ownership over the responses to the same questions in a similar survey a year ago.

The new results indicate an increase in the percentage of women who say a computer is in their home, while male responses reflect a less dramatic rise — though breaking down the survey results also increases the margin of error, making any trends more tricky to judge. With that caveat, the survey also indicates that suburban ownership stabilized during the year, while the number of computers in city and rural homes increased dramatically.

Some gaps in computer markets widened, though. Larger households, those with two or more adults above 18 years old, and those with two or more wage earners bought computers at a faster pace than did smaller households.

Those trends may reflect a more practical consumer who demands more than entertainment and gadgetry for the money he or she spends on electronics. Buyers more often seek to solve specific problems with electronic purchases, says Kevin Randolph, vice president of Bank of America in charge of that bank's home banking operations.

Bankers, meanwhile, have failed to market home banking as a solution to any vital needs, Mr. Randolph says.

"As an industry," he explains, "we've done a great job of telling each other how good home banking is. Now, we need to talk more to the marketplace."

And bankers need to listen, as well, he adds. Bankers largely approached home banking as another add-on feature for consumers looking to use their new computer power. Bankers assumed that the potential for home banking would result from the sale of personal computers, which boomed so dramatically in the early 1980s.

The same assumption permeated the computer industry itself — that bigger and more powerful would sell more, including more options. The large shakeout of computer companies has led to a wave of introspection among the survivors, and a potential change in direction.

One new direction surfaced in home banking efforts, as well. Mr. Randolph cites the inexpensive, small terminals introduced by Citibank and Covidea, the videotex service which offers home banking services, including those of Chemical Bank and Bank of America.

Covidea's terminal, for example, would sell for less than $100, or for an undetermined monthly fee, and provide the consumer with quick, easy access to banking services. Citibank said it will lease its "pocket computers" for about $5 a month to account holders with balances of less than $2,500, with no charge for others.

Mr. Randolph says the new terminals probably represent the best hope for home banking to boom as hoped. These terminals get past the prerequisite of first getting personal computers into the hands of consumers, not to mention the second hurdle of modems — the devices, usually added on, that enable a terminal to communicate over telephone lines.

Probably less than one-quarter of the households with computers also own modems, Mr. Randolph says.

Their own, dedicated terminals provide the banks with a better method than having them all compete for the personal computer market, he says.

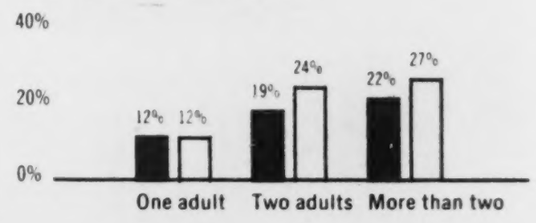
Computer sales also will not grow fast enough to support the growth needed to support home banking, Mr. Randolph adds.

The survey results, indeed, suggest that the growth in computer onwership will continue to slow. The percentage of consumers who say they are likely to buy a computer in the next year declined from 1984 to 1985.

Even if the new terminals do not sell, though, William Harris, president of VideoFinancial Services Inc., Dallas, says he does not worry that home banking will die. He even sees hope in the survey results.

Larger households buying computers at a faster pace

Percent responding from single- and multi-adult households that someone in their home owns a personal computer of some type:



"If we can indeed attract half of the computer owners to home banking, that would be a solid 10% of the consumer market," he says.

Mr. Harris advises keep in mind that computer owners also tend to be wealthier and better educated, and thus an attractive banking customer. "Banks would be stumbling over themselves to get that kind of market share of those people," he says. ■

How Consumer America Views the Changing Financial System

Wooing Customers to ATMs Has Moved Beyond Puppy Love

The public's affection for the automated teller machine has become more than a casual affair, with about half the country having used the electronic version of the great American money machine.

Automated Teller Machines

Half of those who have tried video tellers, though, say they still prefer handling routine business through teller windows, according to responses to a nationwide survey commissioned by the *American Banker*.

That finding disturbs some of those charged with encouraging customer use of the automated tellers; at least one feels the respondents must not have fully considered the tradeoffs.

"I wonder, for example, what they'd say if you asked them whether they'd rather wait up to 15 minutes in a line for a teller or go straight to the ATM," says Gary Roboff, vice president of Manufacturers Hanover Trust.

But the preference for a human face doesn't seem the major factor in discouraging consumers from at least trying the machines: only about 20% of those who say they haven't punched any automatic teller buttons say it's because they prefer a warmblooded teller. A comparable number say it's because their institution hasn't installed the video terminals.

The strongest damper on getting consumers started with video terminals also stymies many other new products — convincing the customers that they need the service, according to the *American Banker* study.

The survey included an open-ended question that asked consumers why they haven't tried the automated tellers.

"Never had a reson or need to use one," says one woman — reflecting the opinion of nearly half of those who haven't tried the video tellers.

So Mr. Roboff and a small army of bankers are studying their customers, trying to identify needs that can be met — and trumpeted loudly — to promote use of the automated tellers. They're anxious to speed the evolution; the electronic processors save money for the institution, and provide new opportunities for flexible banking services.

The survey confirms industry research that the typical user of automated tellers makes more money, is better educated, and generally younger than the average bank customer. But broadening their use to other groups has proven challenging, with exceptions.

"ATMs have caught on wildly in some blue collar areas where people commonly use them for most transactions," says Kevin Randolph, a vice president at Bank of America.

That may jive with another survey finding: that credit unions have done a good job in promoting the use of automated tellers. Some 57% of the people who say they use a credit union for at least some business also say they have tried the video tellers. That's only topped by brokerage firms, where 62% of their customers say they have tried the machines.

In looking at core customers, those who describe a particular institution as their primary bank, thrifts show the least success in encouraging use of the automated tellers. Only 42% of thrift customers have tried the electronic portals, which compares to 54% of commercial bank customers.

Most banks have yet to aggressively push the automated tellers, says Marjolijn van der Velde, a managing director at the Bank Administration Institute. "They're getting ready to gear up, but first are trying to figure out marketing strategies for their ATMs," she says.

Some banks have greatly increased usage, for example, by getting to new customers as they open an account. The institution provides an access card during the initial visit, instead of the common practice of mailing a card later, and enters the necessary code to authorize the card's use.

"Then they have the consumer make their initial deposit through the automated teller," walking them through the process and answering any questions, Ms. van der Velde says.

One option that seems to have caught on quickly with those who have tried automated tellers are the networks that link the machines of a number of institutions. Nearly a third of those who have used an automated teller also have used one at a bank other than their own, according to the survey.

And nearly half of those — or about 6% of the 1,000 interviewed — say they have used an automated teller that was located in a different city. That number would probably be even higher if not limited to those who have used an automated teller through a different bank, as so many more banks now have branches in different cities, Ms. van der Velde says.

Half Still Prefer Human Tellers to ATMs

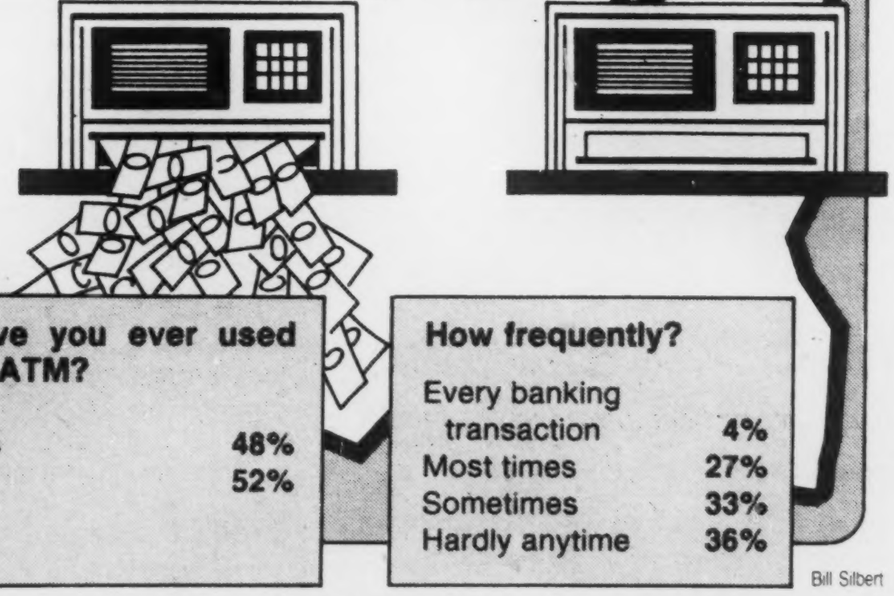
Those consumers who have used an ATM were asked which they prefer:

Prefer human teller	Prefer ATM	No preference
50%	22%	28%

Bill Silbert

Half the Nation is Using ATMs

Of those, about a third frequently use the automated tellers for banking transactions.

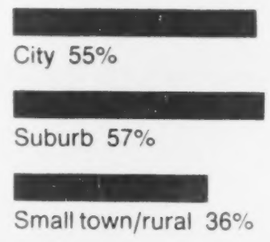


Have you ever used an ATM?	
Yes	48%
No	52%

How frequently?	
Every banking transaction	4%
Most times	27%
Sometimes	33%
Hardly anytime	36%

Bill Silbert

Q: The percent of residents who say they have used an ATM (by type of community):



But the networks rank as a key marketing tool, says Mr. Roboff, who notes Manufacturer Hanover's membership in both a regional and national network.

Northeastern banks have the most fully developed automated teller facilities, as the machines are largely designed for the high volume of transactions that are common to urban areas. The survey confirms, indeed, that rural dwellers are the least likely to have tried a video teller — and that the Northeast residents use them most frequently.

Of those in the Northeast who have used a machine teller, some 42% say they use them for at least most transactions — and 11% say they use them for every banking transaction, compared to 4% nationwide.

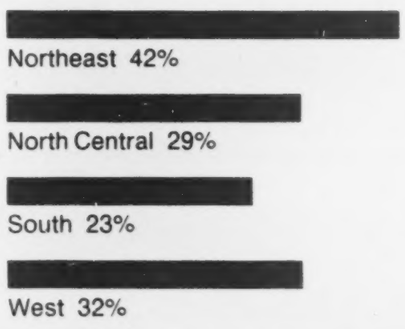
That contrasts with low usage in North Central states, where only 37% of the survey respondents say they have tried an automatic teller.

A new factor also surfaced in the survey's results, the trend in some Southern states to place a charge on the use of automated tellers. Only a few of the survey respondents cite the new charges as why they choose not to use the machines, but at least one proponent fears that trend will grow.

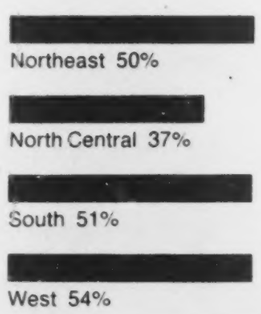
"I think we should be doing just the opposite — charging for checks and not for the use of auotomated tellers," says Robert Heckman, president of MTech, which runs a network of video tellers from its Dallas headquarters.

Granted, Mr. Heckman's livelihood partly depends on the popularity of the automated tellers. But banks often express frustration at the barriers to increasing the use of automated tellers, he says. "It doesn't seem to make sense to add another." ■

The percent of people who say they use ATMs for most or every banking transaction (by region):



Q: The percent of people who say they have used an ATM (by region):



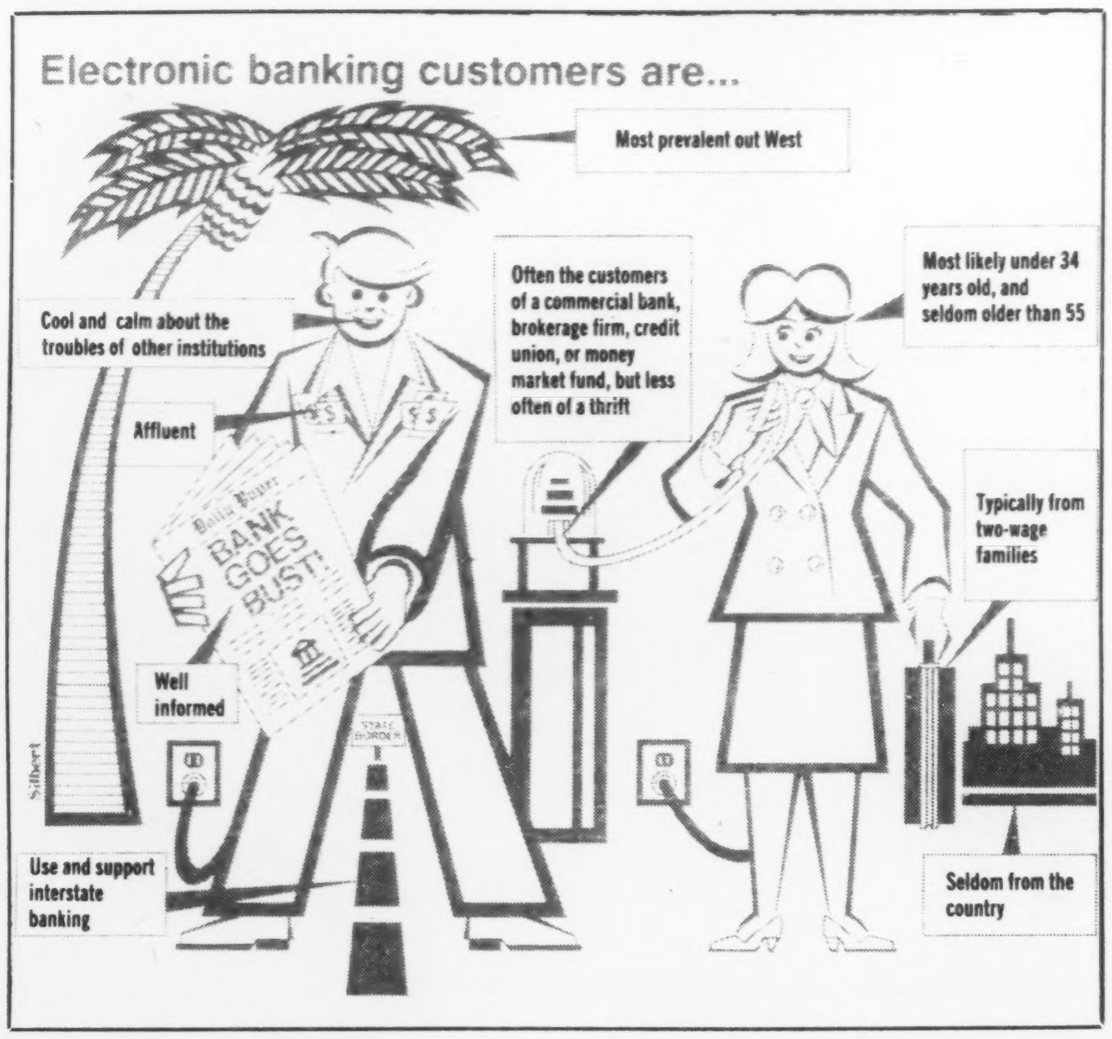
Technology's Tentacles Touch 6 of 10 Consumers

But Resistant Pockets Delay Checkless Era

Nearly two-thirds of the nation has tried electronic services, a sign that new technology has indeed fueled a long-predicted revolution in lifestyles, according to a study commissioned by the *American Banker.*

Some six in 10 respondents to the nationwide survey said they have tried an automated teller machine, or had their checks deposited electronically, or bought a personal computer.

But the checkless society appears more distant when the finding is studied more closely: Levels of enthusiasm for electronic banking vary among different groups of consumers, and clear pockets of resistance can be seen. Only some 4% of consumers show a high acceptance of technology — as represented by those who own a computer, like home banking, and frequently use an automated teller.


Electronic banking customers are...
Most prevalent out West
Cool and calm about the troubles of other institutions
Often the customers of a commercial bank, brokerage firm, credit union, or money market fund, but less often of a thrift
Most likely under 34 years old, and seldom older than 55
Affluent
Typically from two-wage families
BANK GOES BUST
Well informed
Use and support interstate banking
Seldom from the country

Electronic Services

Technology, probably the most advanced of an expected series of changes expected to sweep the financial industry, illustrates the need to better understand a moving target — the changing American consumer.

Only when technology meets a specific need, the survey results suggest, are consumers willing to make the switch. People in urban areas, particularly those from larger households and those from the West, are among those more likely to try an electronic innovation.

"People are willing to try technology only if it solves a specific problem for them, such as providing more convenience in time or location," said Kevin Randolph, in charge of the home banking program at Bank of America.

Less enthusiasm, or less familiarity with electronic services, surfaces among those with more time to handle banking affairs: the elderly, rural residents, and smaller households, particularly people living alone.

Yet technology also attracts consumers who possess some of the most appealing features for banks, particularly money. People who like electronic services earn an average of $35,000 each year, compared with an overall average income of $31,100 for the survey group.

People who are comfortable with electronic services also seem among the more stable bank customers — appearing well informed but less likely to panic in the face of bad news. They also show more slightly higher support for interstate banking, support that increases with their enthusiasm for technology.

"Overall, it's a very attractive group that bankers were willing to take some chances to attract," says William Harris, president of VideoFinancial Services Inc., a Dallas-based videotex service.

But bankers seem more willing today than a few years ago to recognize the limits of any factor, such as technology, in dramatically altering the overall market. More research goes into the type of customers served by a branch before it is redesigned for modern convenience, resulting in a number of prototypes for the branch of the future, rather than just one.

That's especially true for urban banks, where automation has the best chance to flourish, says Gary Roboff, vice president of the Manufacturers Hanover Trust Co. in New York. "The ethnic neighborhoods each demand a different type of approach," he says.

Though more open to change, consumers who are comfortable with electronics show no more support for letting banks into new businesses, such as real estate and insurance. They join in the apparent consensus among consumers that bankers should concentrate on improving what they do already.

The survey results hint at one tool that banks might better emphasize in promoting electronic services, says David Reichman, whose opinion research firm, Reichman Research Inc., conducted the survey. Consumers who participate in direct deposit programs seem more likely to try other electronic services — such as home banking or an automated teller machine — than the public at large.

Some 15% of the general population now has its checks deposited electronically. That jumps to 23% among people who own personal computers, and to 24% among people who frequently use automated teller machines, according to the survey results.

Other research conducted by his firm has indicated that consumers like taking money out of a bank through electronics, but don't trust their deposits in mechanical hands, Mr. Reichman says.

The *American Banker* finding suggests that after letting their paychecks travel by wire, consumers seem more willing to try other electronic services, he says. ■

What Consumers Say About Why They Don't Use ATMs

"I go to the bank and get enough money to last me until the next time to go.

— Elderly woman from a low-income household in the South

I don't think I'd care for them. My daughter's card got swallowed by a machine once.

— Middle-aged man from a North Central state

I don't trust a computer to handle my money.

— Young woman from an upper-income household in the South

We don't have to use one. We have plenty of time to bank with a teller.

— Elderly man from a middle-income household in a North Central state

I have no need to use one and I believe there is an extra charge.

— Young man from a middle-income household in a North Central state

This is a small town and there are no automated tellers in it.

— Young woman from a middle-income household in a North Central state

If my money is easily accessible, I'd be more likely to spend it.

— Young woman from an upper-income household in the South

I don't like the idea of taking money from a machine outside where everyone can see.

— Elderly woman from a lower-income household in the Northeast

It's just a habit to do my banking during the day — I use the drive-through.

— Young woman from an upper-income household in the South"

For Survey Reprints

Reprints of the entire *American Banker* series, "How Consumer America Views the Changing Financial System" can be obtained for $15 each by writing to: American Banker, Attn.: Gina Caputo, One State Street Plaza, New York 10004 or call 212-943-8677.